AN INQUIRY INTO THE PRINCIPLES of the AMERICAN BANKING SYSTEM.

by
William Gouge

CHAPTER I.
Importance of the Subject.

In an address to the stockholders of the United States Bank, at their meeting in 1828, Mr. Nich. Biddle, the President of that institution, stated, that, of five hundred and forty-four Banks in the United States, one hundred and forty-four had been openly declared bankrupt, and about fifty more had suspended business.

Mr. Gallatin, in his "Considerations on the Currency and Banking System," published in 1831, gives a list of 329 State Banks then in operation, having nominal capitals of the amount of $108,301,898, which, added to the capital of the United States Bank, made the whole nominal capital of these institutions, upwards of one hundred and forty-three millions of dollars.

These Banks issue notes which serve as substitutes for coin.
They grant credits on their books, and transfer the amount of credit from one merchant to another.
They receive money on deposit.
They buy and sell bills of exchange.
They discount mercantile notes.
They buy and sell public stocks.

All these are important functions, and if only one of them be ill performed, the community must suffer inconvenience.

The Banks are scattered through nearly all the States and Territories which compose our Union; but they may all be embraced in one view, inasmuch as they all substitute paper for specie, and credit for cash, and are all endowed with privileges which individuals do not possess.

By their various operations, immediate and remote, they must affect, for good or for evil, every individual in the country. Banking is not a local,

temporary, or occasional cause. It is general and permanent. Like the atmosphere, it presses every where. Its effects are felt alike in the palace and the hovel.

To the customs of trade which Banking introduces, all are obliged to conform. A man may, indeed, neither borrow money from the Banks, nor deposit money in their vaults: but if he buys or sells it is with the medium which they furnish, and in all his contracts he must have reference to the standard of value which they establish. There is no legal disability to carrying on commerce in the old fashioned safe way: but the customs of Banking have introduced a practical disability. It is no longer possible for the merchant to buy and sell for ready money only, or for real money. He must give and take credit, and give and take paper money, or give up business.

Bank paper is not a legal tender in the discharge of private debts: but it has become, in point of fact, the only actual tender, and the sudden refusal of creditors to receive it would put it out of the power of debtors to comply with their engagements.

Credit, the great rival of cash, is completely controlled by the Banks, and distributed by them as suits their discretion.

These institutions may contribute little to the *production* of wealth; but they furnish the means to many for the *acquisition* of wealth; they appear to be the chief regulating cause of the present *distribution* of wealth, and as such are entitled to particular attention.

"In copying her [England]" says Mr. Jefferson "we do not seem to consider that like premises induce like consequences. The *Bank mania* is one of the most threatening of these imitations: it is raising up a monied aristocracy in our country which has already set the Government at defiance, and although forced to yield a little on the first essay of their strength, their principles are unyielded and unyielding. They have taken deep root in the hearts of that class from which our legislators are drawn, and the sop to Cerberus, from fable has become history. Their principles

take hold of the good, their pelf of the bad, and thus, those whom the Constitution has placed as guards to its portals, are sophisticated or suborned from their duties. That paper money has some advantages must be admitted: but its abuses are also inveterate; and that it, by breaking up the measure of value, makes a lottery of all private property, cannot be denied. Shall we ever be able to put a constitutional veto upon it ?"[1]

"In most disquisitions upon the noxious tendency of Banks," says another writer[2] "much stress has been laid upon the injuries they have a power to inflict, by excessive loans and consequent bankruptcy, and by creating and circulating a permanent excess of currency. Could these two evils be avoided, many believe that Banks would be innoxious. I regret to differ. I am not of those who imagine that Banks incorporated with a liberal capital, will ever endanger their solvency by extending their loans; nor of those who believe that Banks controlled by specie payment, can circulate a *permanent* excess of paper. And yet, I think I can perceive a portentous power that they exercise over commercial enterprize. I am of opinion that they can circulate a temporary excess of paper, which, from time to time, finds a corrective, in a run upon the Banks for specie; that this temporary excess is succeeded by a temporary deficiency, one extreme invariably tending to another; that the consequences of this alternate excess and deficiency are, in the former case to impart an undue excitement, and in the latter an undue depression to commercial enterprize; that the effect of the former is to create an unnatural facility in procuring money, and to enhance unnaturally the price of commodities; while that of the latter is to produce an artificial scarcity, and to cheapen prices artificially; that the victims of these vibrations are the great body of merchants, whose capital and average deposits cannot always command discounts; that the gainers are a few intelligent and shrewd capitalists, the magnitude of whose deposits commands enormous discounts at all times, and who, being behind the curtain, know when to buy and when to sell. I am of opinion that these vibrations inflict evils which close not with mercantile speculation; that they tend to unhinge and disorder the regular routine of

commerce, and introduce at one moment a spirit of wild and daring speculation, and at another, a prostration of confidence, and stagnation of business: that these feelings are transferred from the counting-house to the fire-side; that the visionary profits of one day stimulate extravagance, and the positive losses of another engender spleen, irritation, restlessness, a spirit of gambling and domestic inquietude.

"I appeal to the commercial history of our country, during the last seven years, and to the aching hearts of many of my fellow-citizens, for the truth of these reflections.

"I wish not to be misunderstood. Let no one suppose me so weak as to attribute every unfortunate speculation, and every fluctuation in prices, to an undue management or organization of our Banking Institutions. That would be a folly, from the imputation of which I trust the preceding remarks will rescue me. There are commercial fluctuations, and they are wholesome. They invigorate enterprize, and their benefits are directly felt by all. There are Banking fluctuations, and they are highly deleterious. They intoxicate enterprize, only to enfeeble it; and the benefits are restricted to a few.

"This evil of Banking fluctuation, ends not with the mercantile community. It extends to every thing that commercial enterprize reaches. It injures the farmer and the mechanic, in the precise ratio of the vacillations of public feeling.

"The injuries which it has inflicted have been as universal as the insinuation of bank paper; and the peculiar manner of its operation renders it doubly distressing. It does not affect the wealthy man, because he can always control discounts; but it falls with single and dreadful severity upon the industrious poor man, whose capital is not sufficient to command permanent accommodations; upon the inexperienced, who purchase knowledge by a sacrifice of property, and upon the merchant whose skill and sagacity Are superior to his wealth.

"Against a power so tremendous, what barrier has been erected ? Against a power which, at different periods, has baffled the legislative wisdom of our revolutionary sages, of the Governments of Europe, and of Great Britain, what check have we imposed ? The interest account of each bank. As well might Canute have controlled the waves of the ocean with a breath."

"Of all aristocracies," said a Committee of the New York Legislature, in 1818, "none more completely enslave a people than that of money; and in the opinion of your committee, no system was ever better devised so perfectly to enslave a community, as that of the present mode of conducting Banking establishments. Like the Syren of the fable, they entice to destroy. They hold the purse strings of society; and by monopolizing the whole of the circulating medium of the country, they form a precarious standard, by which all property in the country, houses, lands, debts and credits, personal and real estate of all descriptions, are valued; thus rendering the whole community dependent on them; proscribing every man who dares to expose their unlawful practices: if he happens to be out of their reach, so as to require no favors from them, his friends are made the victims. So no one dares complain.

"The committee, on taking a general view of our State, and comparing those parts where Banks have been for some time established, with those that have had none, are astonished at the alarming disparity. They see, in the one case, the desolations they have made in societies that were be fore prosperous and happy; the ruin they have brought on an immense number of the most wealthy farmers, and they and their families suddenly hurled from wealth and independence into the abyss of ruin and despair.

"If the facts stated in the foregoing be true, and your committee have no doubt they are, together with others equally reprehensible and to be dreaded, such as that their influence too frequently, nay, often already begins to assume a species of dictation altogether alarming, and unless some judicious remedy is provided by legislative wisdom, we shall soon

witness attempts to control all selections to offices in our counties, nay the elections to the very Legislature. Senators and members of Assembly will be indebted to the Banks for their seats in this Capitol, and thus the wise end of our civil institutions will be prostrated in the dust of corporations of their own raising."

Not a few of those who have a personal interest in the continuance of the system, acknowledge and deplore the evils it produces. Indeed we have found no men more sensible of those evils, than some of the officers of Banks. They retain their offices on the same principle that they would, if they lived in England, retain offices under a Government they could not approve. To the established system of a country, whether political or commercial, men may deem it expedient, perhaps believe it necessary, to conform; but this need not prevent their discovering the necessity for reformation.

One of these gentlemen, Mr. John White, the Cashier of the United States Branch Bank at Baltimore, makes the following candid and correct statement, in a letter to the late Secretary of the Treasury, under date of February 15th, 1830:

"Looking back to the peace, a short period, fresh in the memory of every man, the wretched state of the currency for the two succeeding years, cannot be overlooked; the disasters of 1819, which seriously affected the circumstances, property, and industry of every district in the United States, will long be recollected. A sudden and pressing scarcity of money prevailed in the Spring of 1822; numerous and very extensive failures took place at New York, Savannah, Charleston, and New Orleans, in 1825; there was a great convulsion among Banks and other monied institutions in the State of New York in 1826; the scarcity of money among traders in that State, and eastward, in the Winter of 1827 and 1828, was distressing and alarming; failures of Banks in Rhode Island and North Carolina, and amongst the manufacturers of New England and this State, characterize the last year; and intelligence is just received of the refusal of some of the principal Banks of Georgia to

redeem their notes with specie – a lamentable and rapid succession of evil and untoward events, prejudicial to the progress of productive industry, and causing a baleful extension of embarrassment, insolvency, litigation, and dishonesty, alike subversive of social happiness and morals. Every intelligent mind must express regret and astonishment, at the recurrence of these disasters in tranquil times and bountiful seasons, amongst an enlightened, industrious, and enterprizing people, comparatively free from taxation, unrestrained in our pursuits, possessing abundance of fertile lands, and valuable minerals, with capital and capacity to improve, and an ardent disposition to avail ourselves of these great bounties.

"Calamities of an injurious and demoralizing nature, occurring with singular frequency, amidst a profusion of the elements of wealth, are well calculated to inspire and enforce the conviction that there is something radically erroneous in our monetary system, were it not that the judgment hesitates to yield assent, when grave, enlightened, and patriotic Senators, have deliberately announced to the public, in a recent report, that our system of money is in the main excellent, and that in most of its great principles, no innovation can be made with advantage."

The "grave, enlightened, and patriotic Senators," to whom Mr. White alludes, are those who, with Mr. Smith, of Maryland, at their head, made a report, in the year 1830, in which they represented certain kinds of Bank paper as being as good as gold, and even better. If their opinion is correct, it ought to be confirmed. If it is not correct, its erroneousness ought to be exposed; for error in such a subject as this, may be productive of incalculable mischief.

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1   Thomas Jefferson, letter to Dr. Josephus B. Stuart, Monticello, May 10, 1817.

2   Letter to Mr. Gallatin, by Publicola, New York, 1815.

CHAPTER II.
Of Real Money.

Paper money is the foundation of the American Banking System. But, as, without a knowledge of what is genuine, it is impossible to have a clear conception of what is spurious, it will be necessary to give a statement of the qualities and functions of real money.

Money is not, as was asserted by a late Secretary of the Treasury, (Mr. Ingham) "merely the representative of property." Money of gold and silver is property – is *wealth.* A hundred dollars in silver can no more be considered as the representative of a hundred dollars' worth of flour, than a hundred dollars' worth of flour can be considered as the representative of a hundred dollars' worth of iron. Each is the *equivalent* of the other; but each is *real* wealth – not a mere symbol or representative.

But money is not, as is supposed by some others, superior in its nature to all other kinds of wealth. The precious metals do not differ *essentially* from other items of wealth. This is distinctly seen when they are in the form of bullion. Converting them into coin, does not change their nature. It only adapts them to a particular use – fits them for passing from hand to hand, without the trouble of weighing and assaying each piece at each transfer. An increase of the stock of gold and silver in our country, is very desirable; but it is for precisely the same reasons that an increase of other kinds of wealth is desirable.

Some fancy that it is the authority of Government that gives money its value. But the true value of money, as measured by the amount of goods for which it will honestly exchange, cannot be affected by edicts of Princes or acts of Parliament. Monarchs and Ministers may alter the weight of coins, or lessen their purity; but they cannot make a coin containing an half of an ounce of pure silver, worth as much as a coin

containing an ounce. The stamp of the State is a mere certificate of the weight and fineness of the piece.

Others suppose that the precious metals owe their value entirely to their *scarcity.* But if gold and silver were not useful in the arts, they would have no value in commerce. Their utility is so great, that even if they were not the material of money, they would exchange for great quantities of corn and other commodities. If they were as plentiful as copper and tin, they would be more valuable than these base metals; because they are applicable to more various uses. The market value of the precious metals is, as that of all other things, *in the compound ratio of their utility and of their scarcity.* It does not depend on their scarcity alone. –[really?! an ear-ring is more valuable than a shovel, an ax, a plow !? you would be sadly dis-appointed, sir, if a lode of silver or gold were discovered that yielded as much metal as a copper mine; how quickly your 'precious' metal would become 'base', not worth the minting into coin. It is the myth, the rareness, and the expense of mining that keeps the price (not value, price) up]

Money is, simply, that valuable by reference to which the value of other things is estimated, and by the instrumentality of which the interchange of other things is effected. There is nothing mystical in its nature; nor is it likely that its character would ever have been misunderstood in the United States, if the avoirdupois ounce of silver had been made the unit of reference, and if coins had been struck of the weight of an ounce, and of aliquot parts of the ounce. Men would then have had as clear conceptions of the nature of the transactions into which money enters, as they now have of those in which iron is exchanged for wheat. They would then have seen that there is no essential difference in these transactions – that trade by barter, is exchanging wheat for one metal, and that trade with money, is only exchanging wheat for another metal. It has been by taking for the unit of reference a fractional part of the Troy ounce, which is a weight with which the people are not familiar, and by giving to this unit the arbitrary name of "a dollar," that the subject has been rendered obscure to many minds. –[and just how

did an ounce of silver become the unit of reference ? by decree of some government, somewhere, somehow ! Silver is not money by nature, but by decree. By the way, who decided how much silver an avoirdupois ounce should contain ?][3]

As whatever is extended may be made the standard of length, in like manner, whatever is valuable may be made the standard of value. Instead of saying, this tract of land, or this bale of cloth, is worth so many ounces, or so many pieces of silver, men might say, it is worth so many horses or cows, or so many pounds of lead or of iron. The principle of valuation would be identical with that which is adhered to in countries where only solid money is used. But he who had a small article to sell, would find it difficult to calculate its exact value in the fractional parts of a horse or a cow, and pounds of lead or of iron would be a very inconvenient circulating medium.

Corn, cattle, iron, leather, cacoa, tobacco, and other commodities, have all, in point of fact, been used as money, in different ages and different countries; but they have long ceased to be so used, by commercial nations, for reasons similar to those which have induced men to choose for their standard of length, some object less liable to variation than the foot of a Chancellor, or the fore arm of a King.[4]

The high estimation in which the precious metals have been held, in nearly all ages and all regions, is evidence that they must possess something more than merely ideal value. It is not from the mere vagaries of fancy, that they are equally prized by the Laplander and the Siamese. It was not from compliance with any preconceived theories of philosophers or statesmen, that they were, for many thousand years, in all commercial countries, the exclusive circulating medium. Men chose gold and silver for the material for money, for reasons similar to those which induced them to choose wool, flax, silk, and cotton, for materials for clothing, and stone, brick, and timber, for materials for building. They found the precious metals had those specific qualities, which fitted them to be standards and measures of value, and to serve,

when in the shape of coin, the purposes of a circulating medium. To this use they are admirably adapted:

1. Because they are divisible into extremely minute portions, and capable of re-union without any sensible loss of weight or value; so that the quantity may be easily apportioned to the value of the articles of purchase.[5]

2. They have a sameness of quality all over the world. The difference between iron from different parts of our own country and of Europe, is well known to all dealers in that article. The copper of Siberia is superior to that of Germany, while that of Sweden is better than that of Siberia, and that of Sweden is surpassed by that of Japan. But, one grain of pure gold is exactly similar to another, whether it comes from the mines of Europe or of America, or from the sands of Africa. Time, weather, and damp, have no power to alter the quality: the relative weight of any specific portion, therefore, determines its relative quantity and value to every other portion; two grains of gold are worth exactly twice as much as one.

3. Gold and silver, especially with the mixture of alloy that they admit of, are hard enough to resist very considerable friction, and are therefore fitted for rapid circulation.

4. Their rarity and consequent dearness are not so great, that the quantity of gold or of silver, equivalent to the generality of goods, is too minute for ordinary perception: nor, on the other hand, are they so abundant and cheap, as to make a large value amount to a great weight. –[you just said a page ago that abundance would not make it cheap !?]

5. They are capable of receiving a stamp or impression, certifying the weight of the piece, and the degree of its purity.

6. They are liable to less variation than any other article, from changes in the relations of supply and demand, including the cost of production among the conditions of supply.

By the discovery of America, the supply from the mines was increased tenfold, but as there was at the same time an increase of demand, owing to the increase of other kinds of wealth, the rise of prices from 1520 to 1620, was only fourfold. An opinion prevailed about fifty years ago, that the value of silver had been gradually declining from the year 1620, but Adam Smith, who inquired carefully into the facts, came to the conclusion that the opinion was unfounded, and Jean Baptist Say, the celebrated French economist, is of the belief that there has been hardly any variation in the value of silver in the last two centuries.

During the eight years preceding 1819, the supply from the mines is supposed to have fallen short one-half, owing to the troubles in South America. Such a diminution in the supply of any other article, would have made a great alteration in its value; but the annual product of the mines is so small in proportion to the whole quantity of the precious metals in the market of the world, that it requires very nice calculations to show that their value has been affected by this falling short of the supply.

According to the estimate of Mr. Gallatin, the stock of the precious metals on hand is between four and five thousand millions. From 1803 to 1809, when the mines are believed to have been most productive, the annual supply was fifty millions. In the last twenty years, it is said to have been but twenty-seven millions. But when the annual supply was most abundant, it was only in the proportion of one and a quarter per cent. to the stock on hand, and when it was lowest it had fallen only to three-fifths of one per cent. The ordinary supply of gold and silver does not exceed one hundredth part of the stock on hand, while the annual supply of agricultural products always exceeds, and that of manufactures often equals, the stock on hand.

The demand for the precious metals may be measured by the whole amount of other commodities in the market of the world, and the whole amount of labor. In this, but little variation can take place from year to year, or even in a series of years. There may be a glut of corn, cloth,

cotton, or other merchandise. More of these articles may be produced than can be consumed, at a particular time or place: but there is never a glut of gold or of silver. The demand for these metals is universal and incessant. We do, indeed, say that "money is scarce, or money is plenty," but what we mean thereby is, that *loanable capital* is scarce or abundant. With the great body of men, money, and the material of which it is composed, are always scarce: and must continue scarce, as long as they want those things which money can procure.[6]

From the durability of silver, and its other physical properties, from the steadiness and universality of the demand for it, and from the small proportion the annual supply bears to the stock on hand, it appears to unite all the qualities that can *reasonably* be desired in a commercial standard of value.

If it is not, as has been asserted by some, "an absolutely perfect and altogether permanent standard of value," it, in this respect, resembles our standard measure of length. Even a platina rod is affected by changes of temperature. All things here below are in a state of mutation. The very figure of our earth is changing; and an arc of the meridian will not, in the cycles of futurity, be of precisely the same length that it was when measured by the French Academicians.

It is true, our standard of value is liable to be affected by more causes than our standard of length. But we can calculate the force of these causes, and construct tables showing the effective power of money in exchanges in different ages. Such tables have been published by Sir George Shackford, in the *Philosophical Transactions*, by the Rev. Arthur Young, in one of his treatises, and by Admiral Rainer, as an accompaniment of his valuable charts of fluctuations in the price of corn. The difficulty of showing the effective power of money in remote periods, is not owing to any inherent defect in the material of which it is composed: but owing to the chroniclers of ancient times not having recorded a sufficient number of facts for the satisfaction of modern inquirers.

In solving problems in Political Economy, it is necessary sometimes to use labor as a measure of value, sometimes corn, and sometimes other commodities. So, to measure heights, we sometimes use the foot rule, sometimes the barometer, and sometimes the theodolite. But as, whatever instruments they may use, men find it convenient to express their mensuration of height in feet and inches their fractional parts and multiples, so, whatever measure of value writers may adopt, they seldom find it convenient to proceed far in their calculation, without reducing their expressions of value into the common money of account.

In no way can a clear conception of the wealth of a man in a distant time or place, be so easily acquired, as by a comparison of his income in money with the money price of labor and commodities at the same time and place.

Those who object to silver as an imperfect standard of value, appear to have fixed their minds on our common measures of length, and finding in them some qualities which silver does not possess, have hastily concluded that, as a standard of value, it is more imperfect than it really is. But, as value and length are *essentially* different, we must expect to find the standard and measures of the one essentially different from those of the other. The causes of variation must also be different; and the extent of variation must be different. The analogy between the standards and measures of different things, cannot be greater than the analogy between the things themselves. Value and length agree only in this – that each admits of increase and decrease by homogeneous degrees, whence it is that each is mensurable by like quantities.

If the reader will not suffer his mind to dwell exclusively on measures of length, but extend his thoughts to measures of duration, of heat, and of atmospheric pressure, he will probably be convinced that the common measures of value are not more defective than the common measures of time, temperature, and gravity.

To talk of *absolute* value is as absurd as to talk of ab solute distance. As the distance of the earth from the sun increases as it passes from its

perihelion to its aphelion, the distance from the sun to the earth must increase also.

As the value of other things falls, that of gold and silver rises. If the mercury in the thermometer did not rise as the heat increases, we should not be able, by that instrument, to measure degrees of temperature. If the mercury in the barometer did not fall, as we ascend mountains, we should not be able, by that instrument, to measure heights.

For an *absolute* standard of value, we should have to find something, the cost of production of which should be the same at all times, and in all places, and the demand and supply of which should never vary in the smallest degree. It is impossible even to fancy such a thing. It would be as reasonable to wish for a pendulum which should beat seconds in all latitudes, and in all elevations.

The effective power of money is much greater in some countries, and some ages, than in others. But we do not complain of our common measures of weight as imperfect, because ponderous bodies weigh more when on a level with the sea, than when on the tops of the highest mountains.

To object to the precious metals, on account of their being affected by the costs of production, and by the relations of supply and demand, is to object to them on account of the very things that fit them for standards and measures of value. If the causes of their value were not similar to the causes of the value of other items of wealth, and if they were not liable to be affected by the same causes of variation, they could not serve as a material for money. There must be some homogeneousness in the measure and the thing to be measured.

An ounce of pure silver is a quantity which never changes. We may make this our standard of value – our unit of reference in estimating other things. It is our own fault, if we afterwards vary this standard.

In many minds the notions of value and utility appear to be confounded. But the two things are distinct, though frequently conjoined. A fine lady and a merchant of the society of Friends have very different views of the utility of diamonds; but if the merchant has diamonds for sale, the creed of his church does not induce him to value them at less than the fine lady is able and willing to give. The value of commodities is in proportion to their adaptation to the wants and wishes of mankind, rational or irrational, and to the facility or the difficulty with which those wants and wishes can be gratified.

With others, *value* and *wealth* appear to be synonymous terms. But the various items that constitute wealth are positive in their nature. They are all those things that conduce to the gratification of human wants and desires, and which may be estimated by reference to a given standard – all those things which may be bought and sold, or estimated at a price. The word *value* is used to denote certain relations among these items. It always implies comparison of two or more objects. In its strict sense, it denotes the effective power of things in exchanges; but it is, without impropriety, sometimes used to designate that property in things which makes them effective in exchanges, and sometimes to signify the judgment the mind forms of different things, on a consideration of their effective power in exchanges. All these meanings of the word are closely connected, and grow out of one another.

Various views may be taken of value; but in whatever light it may be regarded, we shall find gold and silver money the most convenient instruments of valuation, though certainly not the only ones it is expedient to employ. The political economist, to determine the natural value of things, may compute their cost of production in days' labor and capital; but he will find it very difficult to estimate accurately these elements of production, except by the instrumentality of money. If he cannot bring his calculations into the common money of account, his labor will be of very little use to the practical man, for the effective power of things in exchanges is always estimated in this way, and it is

the relation the natural value bears to the market value, that induces the enterprizing to incur the toil and expense of production.

In countries in which paper money is unknown, the common standards and measures of value appear to approach as near theoretic perfection, as the common standards of weight, length, or capacity. The standard of reference has no variation, except such as necessarily arises from the nature of value. The measures are com posed of the same material as the standard.

The calculations necessary to show the effective power of money in different countries, and different ages, may not unaptly be compared to those which show the length of pendulums to beat seconds in different latitudes; or to those which show the loss of weight ponderous bodies sustain on being carried to different elevations above the surface of the sea.

In all such countries, the people suffer no more practical inconvenience, from the want of any theoretic perfection philosophers may discover, or may fancy they discover, in the common measures of value, than from similar imperfections in the common measures of time and weight.

Where metallic money is exclusively used, the value of land, of labor, and of all commodities, great and small, can be determined with great accuracy. If, in such countries, the trade between different men is not always an interchange of equivalents, the fault is not in the instrument of valuation, but in those who use it.

If the labor of a man, for a day, or for a year, produces more than is necessary for his immediate support, he can, by exchanging the surplus product for gold or silver, secure the means of supplying his wants in future days or years. Time will not corrupt his treasure or lessen its value. If he should not require it all for his personal wants, he may, at the end of fifty years, endow his children with a portion.

The use of money renders it unnecessary for families to keep on hand a large stock of provisions and other necessaries, and thus saves them from the risk of loss from provisions spoiling, and from various accidents. Having money, they may procure whatever else they want, in just such proportions, and at just such times, as they want.

If business or duty calls a man to a distant country, he finds in money the means of procuring comforts similar to those be enjoys at home. The instrument by which he procures all these advantages, is light of carriage, and is unaffected by any climate into which he may travel.

As the value of silver has undergone hardly any variation in the last two centuries, and probably will not under go any great variation for a hundred years to come, a man may, in solid money countries, enter into a contract to pay a sum of money, ten, twenty, or thirty years hence, and rest assured that more wealth will not be exacted from him than he intends to give. In such countries, contracts can be complied with in equity.

As the standard of value in most countries is the same, the coins differing only in weight, purity, stamp, and denomination, the value of different articles in different countries at the same time, can be ascertained with sufficient accuracy for each country to determine what articles it is expedient to export and what to import.

Without money, the division of labor could never be carried to any great extent, and the wealth of society would be small. Money, by promoting commerce, advances civilization.

All these advantages are procured at a small cost, for the product of the labor of a commercial nation, for a few weeks, will procure it enough of metallic medium for all the purposes of domestic trade, and this medium will not require renewal for centuries.

If the sovereign power refrains from unnecessary alteration in the coinage, commerce is, in countries where metallic money is exclusively used, liable to derangement only from great natural or political causes. If the supply of gold and silver from the mines is greatly increased, it does not produce a great rise of local price, for the metals diffuse themselves over the whole commercial world. If any country gets a large portion of these metals, manufactures absorb a part, and the increase of money is only in proportion to the increase of trade. If the supply from the mines is diminished, manufactures absorb less.

To the state of trade in different countries, the supply of gold and silver money naturally adapts itself; and also to the state of trade in each county and town, and to the condition of each individual. If any country, any county, any town, or any individual wants money, it is for the same reason that that country, that county, that town, or that individual, wants corn, cloth, coaches, or other commodities.

If the laws regulating trade introduce a new state of things, the supply of gold and silver soon conforms to the new relations of supply and demand.

No prohibitions can prevent money's departing from those countries where its amount is beyond what their trade and industry require. No country can be deprived of its just proportion of the precious metals, except by the use of paper, or by such causes as ruin the commerce and industry of a nation. No obstacle, except spurious money, can prevent the precious metals from flowing into countries where wealth is increasing.

No instance is on record of a nation's having arrived at great wealth without the use of gold and silver money. Nor is there, on the other hand, any instance of a nation's endeavoring to supplant this natural money, by the use of paper money, without involving itself in distress and embarrassment.

[*comment*– and 'no instance' on hand when the use of gold/silver as standard and basis of banking did not lead to embarrassment, suspension of payment. And just what should those countries do from where (as result of boom/bust predatory enterprise) 'precious' metal flow out ? should production and commerce come to an end ? What should people use as currency (which a silver coin is, a representative of the worth of my labour, a token for which other people are willing to render labour to me) in a country where there is no silver in the ground ?

Few years after you passed from this existence the Congress of the United States established a commission to investigate the causes of the Dark Ages, and they arrived at the conclusion that the main and root cause was disappearance of gold/silver from Europe. The ancient mines were exhausted and the coins in existence migrated to the near and far east. The result:– "The gradually deepening misery of the populations of Europe during the mediaeval ages, the decay of the civil law, the demoralization of society, the disintegration of government and authority, the institution of feudalism, the poverty, filth, pestilences, abominable crimes, ignorance, and wretchedness that characterized this period of history and gave to it its well-deserved name of the Dark Ages." –All this because of the lack of medium of exchange !! So much for the concept of silver is money by nature...]

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3   A different view of what money–tangible representative of an abstract idea– is:
"You have a crown piece. What does it mean in your hands ? It is, as it were, the witness and the proof that you have at some time done some work which, instead of profiting by, you have allowed society to enjoy in the person of your client. This crown piece witnesses that you have rendered a service to society, and, moreover, it states the value of it. It witnesses, besides, that you have not received back from society a real equivalent service, as was your right. To put it in your power to exercise this right when and how you please, society, by the hands of your client, has given you an acknowledgment or Title, an Order of the State, a Token-a crown piece, in short, which does not differ from other titles of credit (Promissory Notes) and if you can read with the eye of the mind the inscription which it bears you can distinctly see, 'Pay to the bearer a service equivalent to that which he has rendered to society. Value received stated, proved and measured by that which is on me.' After that you cede your crown piece to me. Either it is a

present or it is in exchange for something else. If you give it to me as the price of a service, see what follows: Your account as regards the real satisfaction with society is satisfied, balanced, closed. You rendered it a service in exchange for a crown piece; you now restore it the crown piece in exchange for a service. So far as regards you, the account is settled. But I am now just in the position you were before. It is I now who have done a service to society in your person. It is I now who have become its creditor for the value of the work which I have done for you. It is into my hands, therefore, that this Title of Credit should pass, the witness and proof of this social debt."

4   "It will be observed that the commodities selected to serve the purpose of money during those early ages when the countries of the world were not connected by commerce were always those of adequate, steady, and diffused supply, and therefore of most common acceptation in each country. Thus, in forestal ages, the skins of wild animals were usually employed; in pastoral ages, cattle; in early agricultural ages, grain; in early mining ages, base metal; in early manufacturing ages, glass, musket-balls, nails, strips of cotton, &c."
Shekel = a lamb; *pecus* = cattle; *feoh* = cattle. It seems that left to their own, people chose something other than 'precious' metals as representatives of value, and the use of silver was introduced and instituted by international merchants as a result of 'international' trade.

5   See Say, Book, Chap. xxi, Section 2.

6   Yet another observation as to what money is (Aristotle):–
"Now proportionate return is secured by cross-conjunction. Let A be a builder, B a shoemaker, C a house, D a shoe. The builder, then, must get from the shoemaker the latter's work, and must himself give him in return his own. If, then, first there is proportionate equality of goods, and then reciprocal action takes place, the result we mention will be effected. If not, the bargain is not equal, and does not hold; for there is nothing to prevent the work of the one being better than that of the other; they must therefore be equated. (And this is true of the other arts also; for they would have been destroyed if what the patient suffered had not been just what the agent did, and of the same amount and kind.) For it is not two doctors that associate for exchange, but a doctor and a farmer, or in general people who are different and unequal; but these must be equated. This is why all things that are exchanged must be somehow comparable. It is for this end that money has been introduced, and it becomes in a sense an intermediate; for it measures all things, and therefore the excess and the defect–how many shoes are equal to a house or to a given amount of food. The number of shoes exchanged for a house (or for a given amount of food) must therefore correspond to the ratio of builder to shoemaker. For if this be not so, there will be no exchange and no intercourse. And this proportion will not be effected unless the goods are somehow equal. All goods must therefore be measured by some one thing, as we said before. Now this unit is in truth demand, which holds all things together (for if men did not need one another's goods at all, or did not need them equally, there would be either no exchange or not the same exchange); but money has become by convention a sort of representative of demand; and this is why it has the name 'money' (nomisma) – because it exists not by nature but by law (nomos) and it is in our power to change it and make it useless. There will, then, be reciprocity when the terms have been equated so that as farmer is to shoemaker, the amount of the shoemaker's work is to that of the farmer's work for which it exchanges. But we must not bring them into a figure of proportion when they have already exchanged (otherwise one extreme will

have both excesses), but when they still have their own goods. Thus they are equals and associates just because this equality can be effected in their case. Let A be a farmer, C food, B a shoemaker, D his product equated to C. If it had not been possible for reciprocity to be thus effected, there would have been no association of the parties. That demand holds things together as a single unit is shown by the fact that when men do not need one another, i.e. when neither needs the other or one does not need the other, they do not exchange, as we do when some one wants what one has oneself, e.g. when people permit the exportation of corn in exchange for wine. This equation therefore must be established. And for the future exchange-that if we do not need a thing now we shall have it if ever we do need it-money is as it were our surety; for it must be possible for us to get what we want by bringing the money. Now the same thing happens to money itself as to goods–it is not always worth the same; yet it tends to be steadier. This is why all goods must have a price set on them; for then there will always be exchange, and if so, association of man with man. Money, then, acting as a measure, makes goods commensurate and equates them; for neither would there have been association if there were not exchange, nor exchange if there were not equality, nor equality if there were not commensurability. Now in truth it is impossible that things differing so much should become commensurate, but with reference to demand they may become so sufficiently. There must, then, be a unit, and that fixed by agreement (for which reason it is called money); for it is this that makes all things commensurate, since all things are measured by money. Let A be a house, B ten minae, C a bed. A is half of B, if the house is worth five minae or equal to them; the bed, C, is a tenth of B; it is plain, then, how many beds are equal to a house, viz. five. That exchange took place thus before there was money is plain; for it makes no difference whether it is five beds that exchange for a house, or the money value of five beds."

CHAPTER III.

Of Barter, Leger Entries, Bills of Exchange and Promissory Notes.

It is not necessary for carrying on business *honestly,* to introduce gold or silver money into every transaction. After we have measured a scantling by a foot rule, we may use that scantling to measure another, and that again to measure a third. We can, after having measured several scantlings in this way, make a tolerably correct estimate of the length of others by the eye. In like manner, after the value of given quantities of corn, cloth, and other commodities, has been ascertained by exchanging them for gold or silver, the value of other parcels of the same commodities may be determined without the intervention of money. In commercial countries in which there is no paper money, little trade is carried on by direct barter, not because it is difficult to make a correct barter estimate, but because purchases and sales can be better regulated in regard to time and quantity by other modes of business.

Hence the practice of leger entries, or running accounts. The amount of transactions between two traders may be very great, and yet, if, in all their dealings, they have strict reference to the specie price of goods, the commerce may throughout be an interchange of equivalent, though not an ounce of gold or of silver may have passed from one mer chant to the other.

By promissory notes, the use of real money is *deferred,* and in some cases *superseded*. If A gives a promissory note to B, and B gives it to C, in exchange for goods, and C passes it to D, the use of money is in two cases superseded, and in one deferred. Bills of exchange have, in some respects, a similar effect. A merchant at Paris sending goods to Alsace, and wishing money for them, would be forced to wait till the goods could be sold, and the money brought from Alsace, if he could not procure a bill of exchange. In like manner, a manufacturer at Alsace, sending goods to the capital, would be forced to wait for payment till the money could be brought from Paris. Here would be two sums of money

passing in opposite directions. Supposing the whole trade of France carried on in this way, the amount of money continually on the road would be equal to the whole amount of goods in passage. The amount of money to be annually transferred from one country to another would be equal to the whole amount of trade between different countries, except when the business of importing and ex porting was carried on by the same merchant. By the use of bills of exchange, the merchant receives the money for which the manufacturer's goods were sold at Paris, and the manufacturer receives the money for which the merchant's goods were sold at Alsace. In this way, it becomes necessary to transfer from one part of a country to an other, or from one country to another, such sums only as are equivalent to the balances of trade.

Bills of exchange, where the practice is to pass them from hand to hand, may serve as a local commercial medium, though not a very convenient one, since it is necessary for the nice adjustment of transactions, to calculate the difference of the interest on each transfer. *

Each of these three kinds of mediums has its *specific* uses; and each is, as an auxiliary of gold and silver money, productive of great benefit. A clear view of their operations is necessary, for the distinction between the representatives of private credit, and of bank credit, is as important as the distinction between genuine money and spurious.

Leger entries, promissory notes, and bills of exchange, agree with money in being a medium by which valuables are circulated. They differ from it in being evidences of debt owing by one man to another – which money is not.

In a far more important particular do they differ from money. They are *mere* commercial medium. They are neither *standards* nor *measures* of value. The amounts expressed in them are the estimations made of goods, by reference to the article which law or custom has made the standard of value. They may be conveniently distinguished as *commercial* medium, restricting the term circulating medium to money.

An increase of these three kinds of commercial media may have the same effect on prices as an increase of money. Where the spirit of speculation is excited, men, after having exhausted their cash means, strain their credit. Cash and credit are then competitors in the market, and raise prices on one another. In the year 1825, a year of great speculation, the amount of bills of exchange, negotiated in England, was, according to the returns to Parliament, 600 millions sterling. Supposing one-eighth of these in circulation at the same time, this branch of the commercial medium of England amounted in that year to 75,000,000 pounds.

But the rise of prices produced by these occasional multiplications of the representatives of private credit, is always temporary. At the end of a given period the balance of the running account is demanded, and payment of the promissory notes, and of the bills of exchange, is required in money. If they are paid, their effect on prices ceases. The result is the same, if they are dishonored. In 1826, the amount of bills of exchange negotiated in England, was 400 millions. Supposing one-eighth part in circulation at one time, this branch of the commercial medium of England amounted, in this year, to 50 millions, and was one-third less than in the year preceding.

In countries where the money is of a sound character, and the state of credit sound also, leger entries, bills of exchange, and promissory notes, serve rather to keep prices on a level, than to cause them to fluctuate. In some seasons of the year, as when crops are brought to market, or cargoes arrive from foreign ports, there is naturally more trade than in other seasons. By the use of private credit payments are divided among the different months more equally than would otherwise be practicable.

Thus, in whatever way trade is carried on, whether by barter, running accounts, promissory notes, or bills of exchange, or money, one principle of valuation is adhered to in countries having a sound money system. The cash sales regulate the credit sales, and the cash prices regulate the credit prices.

If the money of a country is paper, whether issued by the government, or by a corporation, the expressions of value in the running accounts, promissory notes, and bills of exchange, are according to the new standards and measures of value.

Into the nature of these we shall inquire in other chapters.

* 1841:-- In the new preface to our "History and Inquiry," we have stated that, if we found it necessary to make any corrections of any moment in republishing it, due notice would be given to the reader. We make one correction to day, in the third chapter.
Further inquiries, and conversations with a gentleman who once did an extensive business in Lancashire, England, have convinced us that bills of exchange, are, as a commercial medium, especially in large transactions, much more convenient than we once supposed them to be.
Their extensive use in England, especially in the county of Lancashire, including the two populous and bustling towns of Liverpool and Manchester, is of itself sufficient evidence that they must possess many and great conveniences.
So convenient, indeed, were they found, that the private bankers of Luncashire, never issued any notes of their own. The joint stock banks lately established in that county, issue notes, but this is because the issue produces a profit to themselves, --not because the old commercial medium was inconvenient to the merchants and manufacturers.
Some of these bills of exchange having but sixty days to run, have, by the time they come to maturity, as many as one hundred and twenty endorsements --thus proving that they have been used on an average, in more than two commercial transactions on each business day.

CHAPTER IV.
Of Banks of Discount.

Let us suppose that all the Banks in the country were destroyed, and that our circulating medium consisted exclusively of gold and silver coin. In such a state of affairs, every merchant would keep about his person, or in his house, his whole stock of money.

Let us next suppose an *Office of Deposit,* established in anyone of our large towns. For the sake of security against fire and robbers, the wealthy would here deposit whatever money they did not require for immediate uses. All the money employed in the wholesale trade would thus become the deposit of the Bank. It might be drawn out a few times, but as every large dealer would keep an account at the Bank, the absurdity would soon become evident, of drawing out the money by one man, that it might be deposited in the same place by his neighbor. The amount would, therefore, be transferred from the credit of one merchant to that of another, and the Bank would become an *Office of Transfer* as well as of *Deposit.* The only money that would circulate, would be that employed in retail trade. All wholesale transactions would be adjusted by checks on the Bank, and transfers on its books.

The Bank having issued no paper, the only demand on it would be for specie to send abroad. This demand would be limited, for every merchant would make it a rule to retain enough money in Bank for his domestic trade. It would be only as the trade of the town fluctuated, that the amount of money in the vaults of the Bank would fluctuate. We may suppose that it rose as high, sometimes, as six millions, and sunk as low, sometimes, as four millions. In a little time, the Bank would discover the lowest amount to which its permanent deposits would be liable to be reduced: and it might lend nearly the whole of this amount without much risk of discovery. The money might, indeed, be sent abroad by him to whom it was lent, but he by whom it had been deposited would still have a credit at the Bank, and as all the wholesale transactions of the town would be carried on by checks on the Bank, his credit on the books of that institution would serve him the same purposes as money. Retaining

the sum of 500,000 dollars to meet contingencies, the Bank might safely grant discounts to the amount of 3,500,000, and thus realize a profit of more than 200,000 dollars per annum, without lending a cent of its own capital, and without issuing any paper.

It is worthy of note, that the Bank of Amsterdam acted on this principle. Millions of money, which the merchants had deposited in its vaults, and for the safe-keeping of which, and the transferring of which from one account to another, they paid a premium, were lent by the Bank to the India Company, and to the Provinces of Holland and West Friesland. The fact was long kept secret; but was discovered when the French entered Amsterdam in 1794. **

What was regarded as a shameful breach of confidence in the Bank of Amsterdam, is, with our American Banks, an avowed principle of action. They all lend the money deposited with them for safe keeping, and it is in this way that the Banks in the large cities make great part of their profits. All the money required for wholesale transactions is their permanent deposit. It may go out one day, but it returns the next; and it may be transferred from one Bank to another, but it is never long out of some of the Banks; and for the same sum of money there are frequently two creditors – one in favor of him by whom the money has been deposited, and another in favor of him to whom it has been lent.

These Bank credits have a very different effect from the leger entries of private traders. Whoever sells on trust, puts on his goods an additional price, equivalent to the interest for the time to which payment is deferred. Sellers may persuade purchasers to the contrary, and, in some cases, capital may be so plentiful that the amount of interest on a small sum, for a short period, may be scarcely appreciable. In other cases, the increase of price is greater than the amount of interest; as with fashionable tailors and shoemakers, who are forced to charge *insurance* on each item, and make the honest pay for themselves and the dishonest also. Their business would not otherwise yield the common profits of stock and the common wages of labor.

But Bank credits are in all cases equal to cash. The Bank check goes as far as Bank notes, for Bank notes can be obtained for it on demand.

Increase of Bank credits has the same effect on prices as increase of Bank notes. He who has deposited money in the Bank, and he to whom it has been loaned, appear as competitors in the market, and raise prices by bidding against one another. It is the same sum of money with which they are contending, and the seller of goods can get it from one only. But there are two credits for this money in the Bank, and the credit is equivalent to cash, both to him who has deposited the money, and him to whom it has been lent.

Our American Banks of Discount must be distinguished from *Loan Offices*, or institutions which lend no more than the amount of their own capital. As some express it, the business of the American Banks is "to lend credit."

These Banks must also be distinguished from the Bank of Amsterdam, as it once was, and the Bank of Hamburg, as it now is. Into those cities there was a great influx of foreign coin, of various denominations, and much of it clipped or worn. To save the trouble of ascertaining the exact value of each parcel, by sorting it on every transaction, it was deposited in Bank, and credit granted to each merchant for the amount he deposited, according to mint valuation, a small sum being deducted for warehouse rent, and a small fee charged on each transfer. These Banks were mere offices of deposit and transfer – not of discount. They were very different from our American Banks.

** In making this statement, we were governed by the common historical authorities. But it is proper to state what we have lately learned from a highly respectable merchant, whose business has occasionally called him to Holland. He got the confidence of the burgomasters, and they, in referring to these historical statements, mentioned that it would not be politic openly to contradict them, but

denied that they were true. They affirmed that on the approach of the Freach, the money was secretly removed from the Bank, and such entries made in the books as to induce their invaders to believe, that it had been surreptitiously loaned. They laughed at the success of their stratagem.

CHAPTER V.
Of Banks of Circulation.

Our American Banks are not contented with the profits derived from lending the money of depositors to other people.

As soon as the first instalment of the capital is paid in, the Bank commences issuing notes. To those who come to borrow, it lends paper or coin. The paper being exchanged for coin, serves, at least at the place where it is issued, the same purposes as coin.

Every man desires money, because he can therewith procure whatever else he desires. If paper can procure for him the object of his desire as readily as gold and silver, paper is as desirable to him as gold and silver. The Bank, therefore, finds borrowers for all the coin it has to lend, and all the paper it deems it safe to issue. This addition of notes to the amount of metallic money previously in circulation, raises first the price of some articles and then of others. The borrower from the Bank having more money, either paper or coin, at command, can offer an additional price for the object of his desire, or perhaps procure some desirable object that was before unattainable. He from whom the borrower has bought, having made a speedier sale, or perhaps received a higher price than would other wise have been possible – he also has it in his power to obtain some object of desire that was not before within his reach. A third, a fourth, a fifth, a sixth, each in his turn, derives a like

advantage from this increase of circulating medium. The rise of prices is confined for a time to store goods, but it at length reaches real estate, and finally the wages of labor. Industry is stimulated, and enterprize encouraged. Speculation is excited, private credit is strained, and the representatives of private credit are multiplied. Every body is active, and all branches of business appear to be prosperous.

Nothing could be prettier than this, if prices could be kept *continually* rising. But it is, unfortunately, only while the amount of Bank issues is actually increasing, or for a short time after they have attained their maximum, that society derives this benefit from paper money. So far it has the same effect as an increase of *real* money – as an increase of real wealth. But in due time it affects all articles in nearly equal proportions: and men then discover that for an object of desire for which they had formerly to give one dollar, they have now to give one dollar twenty-five cents, or one dollar fifty: and that it is not more easy to get the one dollar and fifty cents to make the purchase with, than it was formerly to get one dollar. The value of land, labor, and commodities, as compared with one another, is the same as it was before. It is only the *money price* that is enhanced. The effect this has on public prosperity, is much the same as that which would be produced by changing accounts from pounds, shillings, and pence, to federal money. The sum total of dollars would exceed that of pounds, but the articles of the value of which they would be the exponents, would be unaltered in number and in quality.

It would be well if the issues of the Banks had no other effect than that of *apparently* increasing the wealth of the community, by raising the money valuation of all kinds of property. But these institutions do not continue their issues long, before they raise the price of some commodities above the price they bear in foreign countries, added to the costs of importation. In foreign countries the paper of the Banks will not pass current. The holders of it, therefore, present it for payment. The Banks finding their paper returned, fear they will be drained of coin, and call upon their debtors to repay what has been advanced to them. In two ways, then, is the quantity of circulating medium diminished: first, by

the specie's being exported: secondly; by the paper's being withdrawn from circulation. Prices fall as rapidly as they had before risen. The traders find that the goods in their stores cannot be disposed of, unless at a loss. The different members of society had entered into obligations proportionate to the amount of circulating medium in the days of Banking prosperity. The quantity of circulating medium is diminished, and they have not the means of discharging their obligations. The merchandise, the farms, the houses, for which they contracted debts, may be still in their possession; but the product of the farms will not bring, perhaps, half as much as will pay the interest of the original purchase money; the houses will not rent for as much as will pay the interest on the mortgages; and the store goods must, if sold at all, be sold below prime cost. Bills of exchange are dishonored, and promisory notes protested. One man is unable to pay his debts. His creditor depended on him for the means of paying a third person to whom he is himself indebted. The circle extends through society. Multitudes become bankrupt, and a few successful speculators get possession of the earnings and savings of many of their frugal and industrious neighbors.

By the reduction of the amount of Bank medium, the prices of things are lowered, the importation of some kinds of foreign goods is diminished, and specie is brought back. Then the confidence of the Banks is renewed, and they re-commence their issues of paper. Prices are raised again, and speculation is excited anew. But prices soon undergo another fall, and the temporary and artificial prosperity is followed by real and severe adversity.

"Such is the circle which a mixed currency is always describing."

CHAPTER VI.
General Effects of this System.

The rise of prices that follows an expansion of Bank medium, and the fall that follows a contraction, do not affect all descriptions of labor and commodities, at the same time, in an equal degree. The usual effect of an increase of issues, appears to be to raise still higher those articles which are rising from some natural cause; and the effect of a contraction, to sink still lower those which are falling from some natural cause. As Malthus has observed, the tendency of paper money is in some instances to sink prices to their lowest point, and raise them in others to their highest. The natural value no longer regulates exchanges. We had melancholy proof of this effect of contraction in 1820, when, according to Mr. Niles' calculation, the average price of flour throughout the country was only two dollars and fifty cents a barrel. Of rise of prices produced by expansions of Bank issues, we had striking examples in 1825 and 1831.

Wages appear to be among the last things that are raised by an increase of Bank medium. The working man finds all the articles he uses in his family rising in price, while the money rate of his own wages remains unchanged. In the year 1831, which was a year of great expansion, rents rose enormously in many parts of the town, store goods advanced in price, and such fresh provisions as are sold in the market were higher than they had been at any time since the resumption of specie payments; but the money rate of wages was hardly affected.[7]

If wages are not the first to fall on a contraction of issues, it is because the effects of the contraction fall unequally on different kinds of labor. "Contractions" never proceed far, without breaking up some productive establishments. Some men are thus deprived of employment: they enter into competition with the workmen in other establishments, and finally reduce wages in the branches of business not immediately affected by the contraction of Bank issues.

Hence the complaint we sometimes hear of "all branches of trade being overdone." A great number of enterprizes, undertaken with a cheering prospect of success when the Banks "make money plenty," come to an unfortunate conclusion when the Banks "make money scarce." As one man is thrown out of employment, his effective demand for the product of his neighbor's labor is diminished, and he, perhaps, becomes the competitor of his neighbor, instead of his customer. The merchant is compelled to offer his services as a clerk. The master mechanic becomes a journeyman. If a clerk is thrown out of employment, the shoemaker has one good customer less. If twenty clerks are deprived of employment, the shoemaker may find it necessary to dismiss one of his assistants. If twenty shoemakers are without employment, the baker may find his sales of bread materially diminished: and so of all other trades.

If the real wants of the community, and not their ability to pay, be considered, it will not, perhaps, be found that any one useful trade or profession has too many members. The number of educated physicians, for example, is not too great for the population. But, not a few physicians remain without employment, while many persons, from inability to pay for medical advice, suffer all the evils of sickness. It cannot be said that we have too many shoemakers, tailors, or cabinet-makers, while multitudes are but indifferently provided with clothing and furniture. But, in one sense, "all businesses" may be said to be "over done," since all businesses are by this system rendered unprofitable to some who are engaged in them.

On the operations of manufacturers, these contractions and expansions are productive of most pernicious consequences. Expansions of Bank medium are always incitements to them to extend their business. The paper need not be put in circulation by direct loans to the manufacturers. Lending it to such as will buy their commodities has the same effect. Having, by the increase of Bank medium, been enabled to sell his goods at an advanced rate, the manufacturer re-commences operations with new spirit. So facile is production with modern

machinery, that a small rise of prices causes a great increase of cotton and woollen goods. The production of the articles for which these fabrics are ultimately to be exchanged, cannot, unfortunately, be increased with equal facility. Unfortunately, also, the Bank medium is soon contracted. There is then a glut of manufactures, and a scarcity of money.

On the operations of the agriculturists, these expansions and contractions operate more slowly, but not less perniciously. Of this we had a striking example in 1825, when the speculations in cotton (speculations which can be distinctly traced to an extension of the paper system in Europe and America,) caused much corn to be uprooted that cotton might be planted in its place. The consequence was, a glut of cotton in the next year, and a scarcity of corn, in some districts of the South.

But, increase of Bank medium has the most obvious effect on real estate, as that varies most slowly in value from natural causes. Whenever the Banks make money plenty, speculation in real estate is excited, because men are very desirous to possess that which will afford them a permanent revenue. As the custom is to pay only part of the price agreed upon, and give mortgages for the remainder, a small increase of Bank issues produces a considerable rise in the price of immoveable property. In Philadelphia and some other large towns, it is the practice with many not to give any money in the purchase of building lots, but to contract to pay a specified sum annually by way of ground rent. Thus, when the currency is plentiful, men enter into obligations, binding themselves and their heirs to pay perpetual annuities; which annuities, when the currency becomes scarce, sweep away half or all their property.

A four story house on Market street, the erection of which cost $10,000 about the time of the last war, was offered for sale some years afterwards for five dollars. No body would take it at this price, because the rent the house would bring was not equal to the ground rent. A few fur longs higher up this street, several three story houses were bought for

a dollar apiece; and the purchaser did not get for rent of houses and ground together, as much as he had, a few years previous, bargained to receive for the ground alone.

In the less commercial parts of the town, many mechanics took lots on ground rent, and invested their little savings in houses, which they hoped would be the property of themselves and of their children after them. The Bank issues were contracted, and these hard-working men lost the net proceeds of many years of industry and economy. Now, the owners of the ground meditated no injustice towards these mechanics. When they fixed the rent of the lots, they supposed they were asking no more than they were worth in perpetuity; and the mechanics supposed they were agreeing to pay no more than they were worth. Their value was correctly estimated, but in a debased currency. If the landlords had abated part of their demand, when a fall of prices took place through the enhancement of the currency, they would have acted on principles different from those which usually govern men of business.

For more than a century it had been the practice with men of limited means to lease lots on perpetual ground rent, erect houses thereon, and give mortgages for so much of the cost of building as they could not defray without borrowing. There was little risk in entering into these obligations, as both the ground and the buildings rose in value with increase of capital and population. In each succeeding year a portion of the debt was paid off, and the mechanic had, at the end of no long period, the satisfaction of calling his house his own. The mechanics whose melancholy fate we have recorded, were acting on a method which had been successfully pursued from the first settlement of the country. Their only misfortune was, being ignorant of the principles of currency, and having rulers as ignorant as themselves.

In all parts of the Union, except New England, property passed in the same manner from those who had an equitable to those who had only a legal claim to it. Farms rose in price from fifty to a hundred per cent.,

and sunk again as rapidly as they had risen. Thousands were reduced to poverty, and scores rose to wealth on the ruin of their neighbors.

It may be said that we are only describing the effects of a suspension and a resumption of specie payments. To this it is sufficient to reply, that occasional suspensions of specie payments are *necessary incidents* of the Banking system. Those who fancy that the Bank of the United States would be able to continue specie payments in time of war, forget the fate of the more powerful Bank of England. Twice in the midst of profound peace, has this very Bank of the United States been on the verge of suspending specie payments; and the Bank of England itself was, in 1825, saved from bankruptcy, only by the intervention of a Sunday, the discovery in the cellar of the Banking-house of 800,000 one pound notes, by putting which in circulation again, the Bank evaded its promises to pay, and by an unexpected supply of gold from the continent.

Suspensions and resumptions of specie payments only make the effects of contraction and expansion more obvivious. The money of the country is paper money now, as it was in 1815 and 1816. Its "convertibility" fixes limits on its expansion; but frequent contractions are necessary to keep it "convertible," and these expansions and contractions are followed by very pernicious consequences.

As in the case of all public evils, the system bears with the most hardship on the poor. The rate of wages is, as we have seen, the last thing that is affected by an expansion; and one necessary consequence of a contraction is, to deprive some men of employment. If a rich man can not sell his merchandise to-day, he can sell it to morrow; and if he cannot sell it for full price, he can sell it for half price. But labor is the poor man's only commodity. If he cannot sell it to-day, it is lost to him forever.

The substantial capitalist is a frequent loser, though sometimes a gainer, by these fluctuations. If his capital is small, and his credit in proportion, it is with difficulty he escapes from total ruin in times of

contraction. The reckless speculator, who has no capital of his own, but who operates extensively on the capital of other people, has much cause to be well pleased with this system. If a loss is sustained by a fall of prices, the loss falls on his creditors, for he has nothing to lose. If there is a gain, through a rise of prices, the gain is all his own.

If the speculator is a Bank Director, or a favorite with Bank Directors, happy is his lot. Is there a scarcity of money ? It affects not him. Money is made more scarce with other men, that it may be plenty in his pockets. Whatever may be the condition of others, he is enabled to meet his engagements, and to support his credit. He has the means of purchasing the goods and real estate of distressed debtors at reduced prices, and of holding them till prices rise again. A year seldom passes over without an opportunity of this kind occurring, and such opportunities sometimes occur several times in the course of a single year.

In the facility with which these speculators can obtain loans in troublous times, they have another source of profit. In some seasons, they make more gain by discounting notes out of doors, at 2, 3, and 4 per cent. a month, than the Banks of a city acquire by their regular operations. A "go-between" usually manages these transactions, and the speculator, though generally suspected, cannot be proved to be a usurer: but instances have been known of Directors following unsuccessful applicants for "renewals of accommodation" out of the Banking-house, and then discounting their notes for an extortionate premium. In times of "expansion," men are invited to receive "accommodations" from the Banks; and in time of "contraction" these "accommodations" are made the instruments by which they are fleeced of their property.

Much is said against lotteries, and they are certainly great evils. But a lottery, if there is no fraud on the part of the Managers, is perfect fairness when contrasted with some of our commercial operations. Some must gain, and some must lose, in every lottery: but if it is fairly conducted, the chances of loss and gain are equal to all

adventurers. In the present great game of Banking, in which the fortunes of the whole community are the stakes, the very nature of the game gives great advantages to the Managers.

It is no reply to this to say, that many Bank Directors are too high-minded to make an improper use of their opportunities for making money. Bank Directors are like other men – some of them good, some of them bad. The great majority of them are worthy of all respect as private citizens: but even they must, if they are candid, admit that the *system* gives great advantages to some members of the community over others; and it is of *the system* that we are treating.

Nor is this view of the subject altered by the fact that all the favorites of Banks do not become men of great wealth. They have great advantages in the great game of society, but there is a bye-game among themselves, and one speculator wins from his fellow speculator what the latter had gained from the people at large.

Besides this, they are affected, in common with other men, by the various Banking processes which make business in general so uncertain as frequently to baffle all calculation. These affect all classes of society. These place us all astride of the see-saw of fortune. Now we go up, and now we go down. The fate of the frequenters of the Palais Royal is hardly more uncertain.

These vicissitudes of fortune are most striking in the cases of men of a bold turn of mind, who commence life without capital, and who, not satisfied with the gain acquired by a few years of successful speculation, continue their operations till fortune turns against them. But the regular merchant, the plodding mechanic, and the pains-taking farmer, are not exempted from similar vicissitudes. It is said, that, in one of the most commercial streets of Philadelphia, there were, a few years ago, but three or four mercantile houses of twenty years standing, which had not broken once or oftener, been compelled to ask for an extension of credit, or been in some way seriously embarrassed. When we consider that the same causes are now in operation, how many of our present commercial

houses may we hope will remain unembarrassed for twenty years to come ? No doubt many men will, in that period, retire from business, with handsome estates: but of such as shall continue operations for twenty years, how many will escape the vicissitudes which the present system of things entails on the community ?

We have become so accustomed to this system of breaking, that we begin to consider it a part of the system of nature. But it was not so always. Previous to the revolutionary war, there were but three bankruptcies among the large dealers in Philadelphia.* A bankruptcy in the olden time, spread as much gloom over a family as a death; and if the bankruptcy was the result of misfortune, the family had the sympathy of all their neighbors.

There is reason to believe, that in some periods of six months, more bankruptcies have been recorded in Philadelphia and New York, than in Hamburg and Bremen in twice that number of years: and that there are more insolvencies in the United States in one year, than happen in Holland in a whole century.

No natural causes exist to make trade more uncertain in the United States than in France, Germany, and Holland. The commerce of those countries is, in fact, exposed to shocks, from which ours is exempt, from the operations of hostile armies in and near their territories, and from every change that happens in the political world immediately affecting their mercantile operations. But the expansions of Bank medium lead our merchants to over-trading, and the contractions force them to make sacrifices of their property: and as these expansions and contractions are as incessant, though not as regular, as the ebbing and flowing of the sea, many kinds of business are with us rendered more uncertain by this one cause, than they are in some other countries by all natural and political causes put together.

7 This is not the first time this remark has been made. In the British Bullion Report, made in 1811, the following passage occurs: "The wages of common country labor, the rate of which, it is well known, itself of adapts more slowly to the changes which happen in the value money, than the price of any other species of labor or commodity."

Hutchison, in his *History of Massachusetts*, vol. 2, page 401, makes a remark which shows that the effect of paper money is, in this respect, the same, whether it is issued by a Government or by a Bank.

I recollect one advantage from paper money. Upon the depreciation from time to time, the wages of seamen, and the rate at which coasting vessels and others were hired, did not immediately rise in proportion to the rise of silver, and exchange with London and other parts of the world,"

* They were those of Scott and M'Michael, Peter Baynton & Co., and of one other firm, the name of which is not recollected by our informant.

CHAPTER VII.
Effects on Credit.

In a rising country, sound credit is of equal importance with sound currency. Through its operation, the advantages of capital are more equally diffused than would other wise be possible. The man who has more capital than he wishes to employ in his own business, and the aged and infirm who possess wealth, lend it to the young and active. By these means, much capital is made productive, which must otherwise have remained unproductive; and many persons find employment who must otherwise have been idle. The wealth of the nation is increased, and lenders and borrowers are mutually benefited. The former receive their just share of profits, in the shape of interest; and the latter keep another share as a recompense for the trouble of management.

To have a system of sound credit, nothing more is necessary than to have a sound money system, and to enforce the faithful performance of honest contracts.

In the countries forming the present United States, credit has never been perfectly sound. In an early period of our colonial history, arbitrary alterations were made in the legal valuation of the current coin. Then came the paper money of the Provincial Governments, and the Continental money of the Revolutionary Congress, together with tender laws, supported by penal enactments. Men of property were careful in making loans, as they knew not but that, between the time of lending and receiving back, such alterations might be made in the currency, that they would be paid in money of much less value than that which they lent.

Notwithstanding this, as business was much less uncertain than it is now, men whose moral character was such as to afford a guarantee that they would not take advantage of unjust laws to injure their creditors, found little difficulty in borrowing. But moral character is no longer security for the re-payment of loans; for, the sudden vicissitudes of fortune,

which are produced by the Banking system, make very great changes in the moral feelings of men. Many a one who has, while his affairs are prosperous, every disposition to fulfil his engagements, becomes very careless about them, when he finds his affairs declining.

As industry and economy no longer insure success in business, nothing short of real estate is regarded as adequate security for the re-payment of a loan. This security many men, in whose hands capital would be very productive, are unable to give. And thus, while the rich are prevented from lending their funds in the manner which would be most advantageous to themselves, not a few industrious and enterprizing persons are prevented from exerting their faculties in the way which would be most beneficial both for themselves and for the community. Some, from the impossibility of obtaining capital to work with, are like mechanics without tools – useless both to themselves and to the nation.

This practice of lending on bond, to which Banking has nearly put an end, was, perhaps, more advantageous to the country, than any other kind of lending. Men who have real estate, could find means for employing their faculties to advantage, even if they were not able to borrow on mortgage. They might till their farms, if their real estate consisted of farms; or if it consisted of houses, they might, by renting their houses, obtain capital enough to engage in some active business. But men having no capital of their own, and unable to borrow, must, unless employment is afforded them by others, remain in absolute idleness.

It is now, indeed, possible for such men to borrow from the Banks, if their indorsers please the Directors. But the loans of the Banks are for 60 or 90 days, while months, and even years, are required for bringing the enterprizes of the farmer and the mechanic to successful completion. Short loans are useless to them. The Banks may, indeed, renew the accommodation, but this depends on contingencies; and the curtailments in time of pressure are so ruinous, that a man acts very

unwisely who borrows large sums from the Banks, or who borrows them for a long period.

When Dr. Franklin arrived in this city, more than a century ago, he was a poor and friendless journeyman printer. The amount of loanable capital held by the Philadelphians was small. Yet, he had been here but a short time, before his neighbors, without solicitation on his part, offered to lend him money to establish him in business. A thrifty young mechanic who should now attempt to borrow 500 or 1000 dollars, for a term of two or three years, on his personal security, would be regarded with astonishment. Yet this young mechanic has a capital in his faculties which would entitle him to a loan of more than 500 dollars, if the state of credit were sound. If his labor yields him six dollars a week, and his expenses of living are four; he will have a surplus of 104 dollars at the end of the year. This would pay the interest on upwards of 1700 dollars. His chance of living, if he is twenty-one years old, is, according to the doctrine of life-insurances, at least thirty years. After making every allowance for contingencies, a loan of 500 dollars to such a young man, might be considered quite a prudent act, and such a loan might enable him to double his weekly revenue. But the uncertainty of business, and the instability of moral character which is produced by uncertainty of business, are such, that capitalists deem the chances of re-payment not sufficient to justify lending to young mechanics: and the embryo Doctor Franklins who are among them, are left to contend with adversity, without assistance from their richer neighbors.

As there is no borrowing at present on personal security, except from the Banks, many persons suppose that if there were no Banks, there would be no borrowing at all. But Banks do not increase the amount of loanable capital in the country. The loanable capital of each year, is the wealth which its owners do not choose to employ in their own business. All Banking can do, is, to take this loanable capital out of the hands of its owners, and place it under the control of irresponsible corporations.

If those who have honestly paid their cent per cent for Bank stock, could get their money back, and lend it on bond, it would be more secure than it is at present. Much of that money has been lent by the Banks to wild speculators. It would be in safer hands, if lent to industrious farmers and mechanics, and plain dealing merchants and storekeepers. We mean, of course, if we had a sound money system, and a sound credit system built thereon, and that sound moral character which proceeds from a sound money and sound credit system. At present, it is not prudent to lend on any security short of real estate. Such is the precariousness of business, that men who do not like to incur debts which they may be unable to pay, are scrupulous about borrowing on bond, unless their personal estates are so large as to cover all risk.

CHAPTER VIII.

The same subject, continued.

It is a very pernicious kind of credit which Banking substitutes for the kind of credit which would exist, if we could escape the evils of government paper money, and of unnecessary alterations in our coinage.

The lender and the borrower do not, under the present system, meet each other face to face. The capital is placed in the hands of irresponsible Boards of Directors, who, in managing it, have regard to little but their own personal interest and that of their favorites. Great facilities are thereby afforded to many men for borrowing, to whom no man ought to lend. They are led by Bank loans to engage in business for which they are not fitted by either nature or education. The enterprizes fail, and the wealth of the community is diminished in proportion as the amount of capital thus employed is great or small.

Instances have occurred of men obtaining credit for an immense amount, who were not entitled to credit for one cent. They were neither skilful, industrious, nor economical. They had no capital in their faculties; and

none in the form of real or personal estate; or, if they had, it was previously loaded with debts of equal amount to its whole value. On an investigation of the affairs of a petty Bank in Buck's county, it was found that the President was indebted to it, either individually, or as a co-partner with other men, in the sum of $112,000, which was three times the amount of the active capital of the Bank. In the case of a Bank in Connecticut, the loans of which were 1,900,000, no less a sum than 1,500,000 was lent to two commercial firms, consisting of two persons each. In another instance, four gentlemen of Baltimore, who had previously borrowed $1,957,700 from a certain Bank in the regular way, borrowed an additional sum of $1,500,000 from the same Bank, without even asking the consent of the proper officers. From a statement recently published, it appears that, on the 9th of April, 1832, the whole amount of notes and bills discounted at the principal Bank in Philadelphia, was $7,939,679.52; of which sum, more than two-thirds was loaned to ninety persons. More than $3,000,000 were in the hands of seventeen individuals, and nearly one-seventeenth part in the hands of one person. Deducting from the total the bills of exchange, the discounts of the Bank on that day, amounted to $5,964,085.26; and nearly five millions and a half of this amount were distributed as follows:

In loans of not less than $20,000, each to 72 persons, $2,404,278
50,000, do. 19 do. 1,274,882
do. 100,000, do. 3 do. 341,729
do. 200,000, do. 4 do. 995,456
do. 400,000, do. 1 do. 417,766
$5,434,100

Leaving only $529,974.26, to be divided among the rest of the community. A small amount borrowed from a Bank, gives a man great credit with the community. By paying down a few thousand dollars and giving mortgages for the remainder of the purchase money, he may get real estate in possession of the value of fifty thousand dollars. He is then regarded as a rich man by the multitude, who know of his houses and

lands, but know nothing of the mortgages. They are willing to let him have any kind and any amount of goods on credit. The second year he may be insolvent; but his credit remains unimpaired, and he satisfies those from whom he bought goods in the first year, by the proceeds of goods purchased on credit in the second year. Every year the amount of debt he owes beyond what he is able to pay, goes on increasing; but ten or twelve years may elapse before his insolvency becomes apparent. In the mean time he is living in splendor on the property of other men.

This facility of credit leads many into extravagant modes of living. What they have obtained by the sweat of their brow, men know the value of, and are careful of. But what they obtain in a less laborious way, they expend more freely. The easiness with which they can run into debt, is to multitudes a great misfortune.

It is well if extravagant living is the only fault this facility of credit brings with it. When men accustomed to splendor, have the property of others in possession, and can secure an independent fortune by so simple an act as a false oath in an insolvent's court, the temptation may prove too strong to be resisted. When they break, the ruin that follows spreads far and wide; for a system of guaranteeing has grown out of our present mode of doing business, through which every man's success in life is made to depend quite as much on the good conduct of those with whom he is connected, as on his own frugality and industry. The Banks are secured by special assignments in which the endorsers of notes are made "preferred creditors," but all others with whom the bankrupt has had commercial dealings, are injured. As every merchant depends in part on what is owing to him by others to pay his own creditors, bankruptcies seldom occur singly. One dishonest, or one simply unfortunate man, may break twenty.

When credit has caused such a distribution of wealth as renders that capital productive which would otherwise be unproductive, and gives employment to those persons who would otherwise be idle, or less profitably employed, it effectuates all the good that it is in its nature

capable of accomplishing. Left to itself, it would regulate itself – would reach this limit, and seldom pass beyond it. Pushed beyond this extent, it becomes pernicious; and it is pushed far beyond this extent, by our present system. There is now little buying or selling, except on credit. Even the trade of consumption is on credit. A pass book goes to the grocer's; and the tailor and the shoemaker think themselves happy if their bills are paid at the end of the year.

The retail storekeeper (if he does not commence business without any capital of his own,) lends his capital to his customers by selling to them on credit. This forces him to borrow another capital from the wholesale merchant: for, buying goods on credit, is the same as borrowing capital – it is borrowing in the shape of goods instead of money, and giving a note instead of a bond, and an additional price instead of interest. The wholesale merchant, having lent his capital to the retailer, is forced to borrow another capital from the Bank. The Bank, in its turn, borrows the capital of its depositors, and of those who receive its notes. In this way, the whole community becomes indebted – the private families to the storekeepers, the storekeepers to the merchants, the merchants to the Banks, and the Banks to the community at large.

Nothing is gained by this forced extension of the credit system. It does, indeed, increase the gambling trade of speculation: and that kind of trade in which sheriffs, constables, and assignees, are the active agents. It also increases, in particular years, the trade of consumption: but then it draws from the productive capital of the country, and diminishes the trade of consumption in the following years. The amount of *bona fide* trade for a series of years depends on the amount of goods produced and to be exchanged. The aggregate of this trade would be much increased through the habits of industry and economy which a cash and sound credit system would introduce.

On a cash system, men with small capitals could do as much business as they do at present. They would then turn their capital more frequently. By each act of trade, they would get back their own

capital. Now, when they turn their capital once, they turn it out of their own hands, and it remains out of their hands for a year or eighteen months. In the interim they must employ themselves in turning other people's capital, or give up business.

If an account should be rendered of the amount lost by bad debts in the course of a year, some notion might be formed of one of the evils of super-extended credit: for, nine bad debts in ten may fairly be laid to the account of this system. The aggregate must be enormous, as from 600 to 800 persons annually take the benefit of the insolvent laws in Philadelphia alone, and numerous compromises are made of which the the courts take no cognizance.

CHAPTER IX.
Of Banks as Corporations.

Against corporations of every kind, the objection may be brought, that whatever power is given to them, is so much taken from either the Government or the people.

As the object of charters is to give to members of companies powers which they would not possess in their individual capacity, the very existence of monied corporations is incompatible with equality of rights.

Corporations are unfavorable to the progress of national wealth. As the Argus eyes of private interest do not watch over their concerns, their affairs are much more carelessly and much more expensively conducted than those of individuals. What would be the condition of the merchant who should trust every thing to his clerks, or of the farmer who should trust every thing to his laborers ? Corporations are obliged to trust every thing to stipendiaries, who are oftentimes less trustworthy than the clerks of the merchant or the laborers of the farmer.

Such are the inherent defects of corporations, that they never can succeed, except when the laws or circumstances give them a monopoly, or advantages partaking of the nature of a monopoly. Sometimes they are protected by direct inhibitions to individuals to engage in the same business. Sometimes they are protected by an exemption from liabilities to which individuals are subjected. Some times the extent of their capital or of their credit, gives them a control of the market. They cannot, even then, work as cheap as the individual trader, but they can afford to throw away enough money in the contest, *to ruin* the individual trader, and then they have the market to themselves.

If a poor man suffers aggression from a rich man, the disproportion of power is such, that it may be difficult for him to obtain redress; but if a man is aggrieved by a corporation, he may have all its stockholders, all

its clerks, and all its protegés for parties against him. Corporations are so powerful, as frequently to bid defiance to Government.

If a man is unjust, or an extortioner, society is, sooner or later, relieved from the burden, by his death. But corporations never die.

What is worst of all, (if worse than what has already been stated be possible,) is that want of moral feeling and responsibility which characterizes corporations. A celebrated English writer expressed the truth, with some roughness, but with great force, when he declared that "corporations have neither bodies to be kicked, nor souls to be damned."

All these objections apply to our American Banks.

They are protected, in most of the States, by direct inhibitions on individuals engaging in the same business.

They are exempted from liabilities to which individuals are subjected. If a poor man cannot pay his debts, his bed is, in some of the States, taken from under him. If that will not satisfy his creditors, his body is imprisoned. The shareholders in a Bank are entitled to all the gain they can make by Banking operations; but if the undertaking chances to be unsuccessful, the loss falls on those who have trusted them. They are responsible only for the amount of stock they may have subscribed.

For the old standard of value, they substitute the new standard of Bank credit. Would Government be willing to trust to corporations the fixing of our standards and measures of length, weight, and capacity ? Or are our standards and measures of value of less importance than our standards and measures of other things ?

They coin money out of paper. What has always been considered one of the most important prerogatives of Government, has been surrendered to the Banks.

In addition to their own funds, they have the whole of the spare cash of the community to work upon.

The credit of every business man depends on their nod. They have it in their power to ruin any merchant to whom they may become inimical.

We have laws against usury: but if it was the intention of the Legislature to encourage usurious dealings, what more efficient means could be devised than that of establishing incorporated paper money Banks ?

Government extends the credit of these institutions, by receiving their paper as an equivalent for specie, and exerts its whole power to protect and cherish them. Whoever infringes any of the chartered privileges of the Banks, is visited with the severest penalties.

Supposing Banking to be a thing good in itself, why should Bankers be exempted from liabilities to which farmers, manufacturers, and merchants are subjected ? It will not surely be contended that Banking is more conducive than agriculture, manufactures, and commerce, to the progress of national wealth.

Supposing the subscribers to Banks to be substantial capitalists, why should artificial power be conferred on them by granting them a charter ? Does not wealth of itself confer sufficient advantages on the rich man ? Why should the competition among capitalists be diminished, by forming them into companies, and uniting their wealth in one mass.

Supposing the subscribers to Banks to be speculators without capital – what is there so praiseworthy in their design of growing rich without labor, that Government should exert all its powers to favor the undertaking ?

Why should corporations have greater privileges than simple co-partnerships ?

On what principle is it, that, in a professedly republican Government, immunities are conferred on individuals in a collective capacity, that are refused to individuals in their separate capacity ?

To test this question fairly, let us suppose that a proposition were made to confer on fourteen individuals in Philadelphia, and three or four hundred individuals in other parts of the country, the exclusive privileges which three or four hundred incorporated Banks now possess. How many citizens would be found who would not regard such a proposition with horror. Yet privileges conferred on corporations are more pernicious, because there is less moral feeling in the management of their concerns. As directors of a company men will sanction actions of which they would scorn to be guilty in their private capacity. A crime which would press heavily on the conscience of one man, becomes quite endurable when divided among many.

We take much pride to ourselves for having abolished entails, and justly, in so far as the principle is concerned: but it seems to be lost sight of by many that entails can prove effective only when the land is of limited extent, as in Great Britain; or where the mass of the population are serfs, as in Russia. In those districts of our country where negro slavery prevails, entails, aided by laws of primogeniture, would have kept estates in a few hands: but in the Middle and Northern States, a hundred ways would have been contrived for breaking the succession. If direct attempts had proved unsuccessful, the land would have been let on leases of 99 or 999 years, which would have been nearly the same in effect as disposing of them in fee simple. The abundance of land prevents its being monopolized. Supposing the whole extent of country, from the Atlantic to the Pacific, and north of the 39th degree of latitude, parcelled out among a few great Feudatories; those Feudatories, in order to derive a revenue from their domains, would be forced to lease them in a manner which would give the tenants the whole usufruct of the terrene; for, the quit rent would be only an annual payment, in stead of a payment of the whole in advance.

But the floating capital of the country is limited in amount. This, from the condition of things, may be monopolized. A small portion of the community have already, through the agency of Banking operations, got possession of a great part of this floating capital, and are now in a fair

way of getting possession of much of the remainder. Fixed and floating capital must be united to produce income, but he who has certain possession of one of these elements of revenue, will not long remain without the other.

The difference between England and the United States, is simply this: in the former country, exclusive privileges are conferred on individuals who are called *Lords*; in the latter, exclusive privileges are conferred on corporations which are called *Banks*. The effect on the people of both countries is the same. In both the many live and labor for the benefit of the few.

CHAPTER X.
Of the Popular Arguments in favor of Banking.

The objections to the American Banks are tripartite. They are, first, such as arise from their substituting paper money for metallic. Secondly, such as arise from their introducing an unsound system of credit. And, thirdly, such as arise from their nature as corporations. If the reader will take a view of all the different operations of the Banks, connecting them together in his mind as they are connected in fact, he will require no refutation of the popular arguments in favor of the system. Nevertheless, it may not be amiss, for the satisfaction of some, to consider these arguments in the form in which they are commonly presented.

"*Banks make money plenty*."

Nay, they make *real* money scarce. As Bank notes are circulated, gold and silver are driven away. It is contrary to the laws of nature that two bodies should fill the same space at the same time: and no fact is better

established than that, where there are two kinds of currency authorized by law or sanctioned by custom, that which has the least value, will displace the other. If Banks at any time make money more plentiful than it would be if only gold and silver circulated, they diminish its value in increasing its quantity. The valuation, or relative estimation of things is thereby enhanced, but not an atom is added to the wealth of the community.

"*Banks diminish the rate of interest*."

So far is this from being true, that the Banks tend to increase the rate of interest, by collecting capital into large masses, and diminishing the competition among money lenders. They, also, by their various operations, immediate and remote, give rise to a multitude of usurious transactions.

"*Banks do much good by lending money to individuals*."

But much less good than would be done, by the owners of this money lending it themselves. Banks, as was observed in a previous chapter, do not increase the loanable capital of the country, but only take it out of the hands of its proprietors, and place it under the control of irresponsible Bank Directors.

"*If there were no Bank paper, specie must of necessity be frequently transported to and from distant parts of the country, at great expense and great risk*."

The trade between different parts of the country does not consist of an interchange of Bank notes or of specie, but of the products of the soil and the industry of the inhabitants. By private bills of exchange, the sums due to one trader could be transferred to another; and it would be necessary only occasionally to discharge balances in specie. This is, in fact, the present custom of trade, Bank notes being to only a limited extent, substitutes for bills of exchange.

"*Banks diminish the rate of exchange between different parts of the country*."

Then they do great evil. The rate of exchange is the natural balance wheel of trade between different parts of the country. Banks cannot interfere with this, without doing harm. When they lessen the rate of exchange, they remove a natural check on overtrading.

"*Banks give greater security than individuals in buying and selling exchange*."

If so, it is because the other operations of Banking have rendered all kinds of business uncertain. In countries where paper money is unknown, no more risk attends dealings in exchange than other kinds of dealings.

"*Such are the customs of trade in the United States, that Banking seems necessary*."

But the customs herein referred to have their origin in Banking, and, as they are pernicious, ought to be abolished.

"*All commercial countries have some systems of Banking*."

And none have a worse system than the United States. In all commercial countries, there are men who receive money on deposit, lend money, and deal in exchanges; but the system of Banking on *paper* money, is of modern origin. The cities of Greece, and Rome, and Egypt, and ancient Asia, attained to wealth far greater than we can boast of, without the aid of chartered Banks. In all countries in which paper money Banking, or paper money of any kind, has been introduced, it has done much evil. Austria, Russia, Sweden, France, Denmark, Portugal, Brazil, and Buenos Ayres, all bear witness to this truth, as well as England and the United States. To these countries we may add China, in which paper money was tried before the commencement of our era, and, on experience of its ill effects, abandoned.

"*The various evils that are mentioned as flowing from Banking, proceed, in fact, from abuses of it. Banking on proper principles is productive of great benefits*."

We willingly admit that Banking on proper principles would be productive of great benefits: but we deny that Banking with paper money, or by corporations possessing peculiar privileges, is Banking on proper principles.

"*Paper is more convenient than specie in large payments*."

Deduct from the total of large payments, all those that are made on account of accommodations at Bank, and all those made on account of the wild speculations introduced by Banking, and it will be found that so few large payments would remain to be made, that we should be able to get through them all without difficulty. To count out a sum in ten or twenty dollar gold pieces, would be as easy as to count it out in ten or twenty dollar Bank notes. Before the establishment of a Bank in Montreal, guineas were done up in rouleaus, and such was the confidence the merchants had in one another, that the paper envelopes of the guineas were seldom broken. We mention this merely to show that the effecting of large payments with metallic money, would not be a work of so much difficulty as some imagine. In cases where great despatch was required, the silver or gold money might be weighed, as was done by the Bank of England in 1825, when the demands for gold was so urgent, that the tellers had not time to count the sovereigns they paid out.

If we wish to effect large payments with the least possible inconvenience, we must establish a *single* Office of Deposit and Transfer in each large town. This would save the time which is now lost in running from Bank to Bank.

"*Paper saves the wear and tear of coin*."

The saving is too insignificant to be taken into a national account, in a subject of so much importance as the soundness of the currency. Mr. Gallatin says that "the annual amount wanted to repair the loss occasioned by friction in gold and silver coin, cannot exceed, taking the highest computation, seventy thousand dollars a year in a coinage of forty millions, and is probably much less." This estimate has been formed by Mr. Gallatin, "from various opinions deduced from actual experiments."

Dr. Moore, the Director of the United States Mint, in a report made to the President in 1826, computes the loss on gold coins at two per cent. in fifty years, and on silver coins at only one per cent.

Agreeably to the report made to the Senate by the Committee of which Mr. Sanford was chairman, half-dollars and half-eagles will circulate for one hundred years, and dollars and eagles for two hundred years, without being so much worn or defaced as not to serve the purposes of a circulating medium.

"*Banks afford the public a safe place for depositing their funds*."

Not always. One hundred and sixty of these safe depositories, have broken in the last twenty years, and one hundred and sixty more may break in the twenty years next to come.

Again: all those who deposited money in the Banks in the early part of 1814, received back their deposits in money of inferior value. What has happened once, may happen again.

The probability is, that ten times as much has been lost by depositing money in Banks, as would have been lost if people had kept their money in their own houses.

"*Every man ought to be allowed to use his own credit*."

Exactly so: and, therefore, we ought not to have incorporated Banks, which give credit to some, by taking it from others. These institutions

owe their credit to acts of Assembly. If their charters were taken from them, not even their own stockholders would trust them. Every man ought to be allowed to use his own credit; but he ought to get that credit fairly, and use it properly.

"*If there were no Banks, it would be easy to borrow money on bond or mortgage, for long periods, but it would not be possible to obtain discount of merchants' business paper, which has but a few months to run*."

Not so: If the corporate Banks of Philadelphia were abolished, many private Banks would spring up in their place. The owners of these private Banks would be men in whom the public could place confidence, for they would be responsible in the whole amount of their estates. They would be men of great wealth, for it is in lending money that men of large fortunes can employ their capitals with most profit and convenience. The competition among them would be such, that business notes would be discounted on more favorable terms than at present. They would allow interest on such sums as their customers might leave in their hands. For their own convenience, they would establish a public Office of Transfer and Deposit, and pay the greater part of the expenses of this institution.

The system of private Banking in England, has done much evil, (though much less evil than the system of corporate Banking in the United States,) because the private Banks of England have traded partly on paper money issued by themselves, and partly on that issued by the Bank of England.

In Scotland, where the regulating power is in the unincorporated Banks, the system does less evil than in England, although paper money is used in both countries.

Private Banking in Switzerland, Holland, France, Hamburg, and Bremen, does much good and no evil. Such a system will we have in the United States, when paper money shall be abolished. In every town in

the United States, in which there is trade enough to require it, private Bankers will spring up, who will receive money on deposit, and pay interest for the use of it: Lend money on interest: Buy and sell bills of exchange: Attend to the collection of debts, and in various ways facilitate business. Operating on sufficient capital, these private Bankers will not ruin their customers by violent "contractions." Neither will they incite them to engage in improper enterprizes, by sudden and great "expansions."

Our corporate Banks do no good to compensate for the evils they occasion, by their continual alterations of the measures of value, by the uncertainty they give to trade, and by the advantages they confer on some men over others. With private Banks, and public Offices of Transfer and Deposit, we should have all that is good in the present system, without the evil.

CHAPTER XI.
Of Restrictions on Banking Corporations.

The evils which are produced by paper money Banking, are so great as necessarily to force themselves on the attention of those who are most deeply interested in the continuance of the system. To remedy these evils, they propose various restrictions on Banking corporations, or new modes of conducting their business.

A common opinion is, that, if the Banks would not discount accommodation notes, and if they would confine themselves to business paper of short dates, their operations would not be injurious to the community.* But, a little reflection may convince us, that, by discounting business paper, as much Bank paper might be set afloat, as by discounting accommodation notes. The same lot of goods might be sold to a dozen persons, and each might give a note, and each of these twelve notes might be discounted at Bank. The limit on Bank issues would be the same as at present – that is, the demand for specie for foreign trade. The anxiety of the Banks to extend their issues would be in no way diminished. The inducement, then, would be to buy and sell goods that notes might be discounted at Bank. Now, it is to have notes discounted at Bank, that goods may be bought and sold. The spirit of speculation being excited by any cause, notes would flow in for discount, and the Banks would, as at present, discount as many as they might deem prudent.

The severest legislative enactments could not confine the Banks to discounting business paper of short dates, if this paper did not afford full employment to all their "capital" and all their "credit." They would soon find sufficient reasons for "renewing" the business notes of some of their customers, and those notes, thus renewed, would become accommodation notes.

Except in the cases of applications from Directors, and their favorites, the Banks now prefer business notes, because these place their issues more immediately under their control. More than a certain amount they cannot lend on accommodation paper, for they must keep so much capital under command as is necessary to support their credit. Their deposits would otherwise be withdrawn, and the circulatian of their notes would cease. It does not appear that these accommodation notes have any specially mischievous effect on prices. They are permanent in amount, or nearly so. The fluctuation of prices appears to be occasioned by that part of Bank "capital" and of Bank "credit," which is always varying in amount.

Limiting the amount of issues to double the amount of capital, and the amount of loans to thrice the amount of capital, is a favorite provision with legislators. But, Mr. Gallatin says, "amongst more than three hundred Banks, either now existing, or which have failed, and of which we have returns, we have not found a single one, the loans of which amounted, so long as specie payments were in force, to three times, or the issues to twice, the amount of capital. It is clear, that provisions applicable to such improbable contingences, are purely nominal."

Compelling the Banks to give an annual statement of their affairs, is also a favorite measure. But it is not easy to compel them to give a faithful statement. The accounts of the Banks that break look nearly as well on paper as the accounts of the Banks that continue payments. They who are acquainted with the secrets of Bank management, say, little reliance is to be placed on these accounts.

Preventing the Banks from issuing notes of a less denomination than five dollar's, is a measure which is effective so far as it goes. But it still leaves the Banks the power to substitute paper for specie, and to carry on credit dealings to an extent which is very pernicious. In England, where the issue of notes of a less denomination than one pound sterling, or about four dollars and eighty cents, has, for many years, been prohibited, the contractions and expansions of the Bank have done so much evil,

that it has been found necessary to prohibit the emission of any notes of a less denomination than five pounds sterling, or about twenty-four dollars Federal currency. The Bank of France issues no notes of a less denomination than 500 francs, equal to about ninety-four dollars of our money, yet the Bank of France is at times forced to make such sudden and great curtailments, as inflict much evil on many of those who are within the sphere of its influence. The manufacturers in Alsace had doleful experience of this power of the Bank in France, in 1825. The merchants of Paris, and throughout the kingdom, felt it in 1819. In 1822, also, the contractions which the Bank of France found it necessary to make, produced much commercial embarrassment in many parts of that country.

In the charter of the Bank of France, there is a provision that all profits above six per cent. shall be converted into a reserved stock, on which reserved stock the Bank may make dividends not exceeding five per cent. Such a provision in the American Bank charters, would remove many inducements to over-banking, and would make speculations in their stock less frequent.

In proportion as the personal responsibility of those concerned in Banking is increased, and in proportion as the denomination of the notes they are permitted to issue, is raised in amount, the system becomes less pernicious. But no legislative enactments can afford an adequate remedy for the evils which flow from incorporated paper money Banks. The system is, to use the language of the lawyers, *malum per se* – or a thing which is evil in its nature. The very principle of its foundation is wrong. No immunities should, in a Republican Government, be granted to any, save those which are common to all. To impart to corporations a moral sense of right and wrong, is impossible. They may be made nominally responsible, but to impose on them an effective responsibility is impracticable. To a certain extent they obey the laws, and respect public opinion, but it is only so far as, and so long as, is necessary for making their business profitable. The interest account of the Banks is, in point of fact, the only effective check

we have on the abuse of those powers which our legislative bodies have conferred on them by charter.

Such privileges as the Banks possess, ought neither to be sold nor to be given away, by a republican legislature, to any men or any body of men. A control over the whole of the cash and the credit of the community, is a power as despotic in its nature as any possessed by the nobility of Germany.

The regulation of the currency is one of the most important prerogatives of sovereignty. This prerogative is now, in point of fact, surrendered to the Banks. They drive away what may be called the natural money of the country, and substitute for it something which differs from this natural money in both the nature of its value, and the causes of its value. A quantity of this money may be put afloat, but, whatever may be the discretion of Directors of Banks, and whatever may be the legal restrictions on corporations, it must fluctuate in quantity, and be affected in value, by all the causes, natural and political, by which credit is affected. It is flexible, vacillating, agitated by every wind that blows. If any man can invent a method by which the hardness and other properties of platina can be imparted to lead, that man may hope to discover the means by which Bank credit may be made as stable as gold and silver medium.

To prove that the task is hopeless, we shall give an analysis of the standard and measures of value introduced by Banking.

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* This opinion was sufficiently refuted by the Bullion Committee, so long ago as 1811; and the correctness of their conclusion is confirmed by those who have had the best opportunities for observing the operations of the Banking system. "I consider the opinion entertained by some," says Sir F.B., "that the Bank ought to regulate its issues by the

public demand, as dangerous in the extreme; because I know by experience, that the demand for speculation can only be limited by want of means." The general practice in England is to discount only business paper, but this does not prevent the recurrence of evils similar to those we suffer in the United States.

CHAPTER XII.
Of the Essential qualities of Bank Notes.

Bank notes are considered by some as "representatives of specie." But, for every silver dollar they have in their vaults, some of the Banks have two paper dollars in circulation, some three, some five, some eight, and some thirteen. Bank notes cannot represent that which the Banks have not, and which is not in the country. If Bank notes can, in any sense, be considered representatives of specie, the paper dollar of the same Bank sometimes represents fifty cents, and sometimes forty cents: and the paper dollars of different Banks represent at the same time, thirty three and a third cents, twelve and a half cents, ten cents, and seven cents of the silver dollar. Yet they are all current, and all have the same effective power as silver in exchanges.

Various other erroneous views are entertained of the nature of Bank notes, the consideration of which would be tedious. Examining them one by one, would be merely showing what Bank notes are not. Instead of doing this, it will, it is presumed, be sufficient to show what Bank notes really are.

Bank notes are *simple evidences of debt* due by the Banks. This is their true character.

As mere evidences of debt, they differ not from the promissory notes of merchants. They are also, in common with bills of exchange and business notes, a commercial medium; but in some respects, there is an essential difference between Bank notes and the notes of merchants.[3]

For *their* promissory notes, the merchants pay interest. For the promissory notes of the Banks, the Banks receive interest.

The promises to pay of the merchants are fulfilled, when the notes arrive at maturity. Bank notes are never paid.[4] Payment of them in the aggregate is never demanded, because what could be got in payment, would, for most purposes of domestic trade, serve no better purpose than Bank notes themselves.

Bank notes are thus a kind of *paper money*. In the countries where they are used, bills of exchange, the pro missory notes of merchants, and balances of running accounts, are paid in Bank notes, as they are paid in other countries with metallic money.

The sales for prompt payment in Bank notes regulate sales for deferred payment in Bank notes, as, in solid money countries, cash transactions regulate credit transactions.

Like real money, Bank notes are instruments of valuation. The quantities they express are the exponents of the effective power in exchanges of land, labor, and commodities.

An increase or decrease of Bank notes in the United States, has the same effect on prices, that an increase of solid money has on prices in Spain or Switzerland.

Increase the amount of Bank notes, and, other things being the same, prices will rise.

Diminish the amount of Bank notes, and, other things being the same, prices will fall.

In our first chapter, the several qualities of gold and silver were enumerated, all which qualities an article must possess in the same degree, to serve as well as the precious metals the purposes of money. In proportion as the qualities of articles recede from those of gold and silver, they are unfitted for these uses. By a comparison of the different qualities of Bank notes and coin, the reader may acquire a clear conception of the difference between real money and fictitious.

In susceptibility of receiving an impression, and in comprising a great value (i.e. market value) in a small space, Bank notes agree with coin. But in every thing else they disagree. Of utility in the arts, the very attribute that gives gold and silver their value in commerce, Bank notes are utterly destitute. They are also destitute of the important qualities of unchangeableness of value, and of uniformity of value.

We, however, because we have never changed our money of account, fancy that we have never changed our standard of value. We call a Bank dollar by the same name as a silver dollar, and then fancy there is no essential difference between them.

In our mensuration of other things which admit of increase or decrease by homogeneous degrees, we use in struments possessing the same physical properties as the thing to be measured. The judgment the mind forms of weight or length, is regulated by a material standard. The judgment the mind forms of value, is regulated by an ideal standard; for Bank credit is something altogether intangible.

In solid money countries, in all sales of goods for cash, the products of labor are exchanged for the products of labor. The product of the miner's labor, is made the instrument for circulating the products of the farmer's and of the manufacturer's labor. The transactions are removed but one step from simple barter, and do not differ from it in its essential principle. The exchanges on both sides are of articles possessing inherent value – articles in the production of which labor has been bestowed, and articles which possess the physical qualities which adapt them to the satisfaction of human wants and desires. We receive

commodities from one another, and give in return some uncertain representatives of credit, and fancy that trade is conducted with us on the same principles as it is in those countries where paper money is unknown. We pass from hand to hand certain promises to pay, and call that making payment.

The relations in the supply and demand of the precious metals are so slow in changing, that hardly any perceptible variation in the value of silver has, according to some able authors, taken place in the last two centuries. But the supply of Bank notes may vary several per cent. in different periods of the same year, and twenty or thirty per cent. in three or four years. Thence come great rises and falls of price: but we have only an imperfect apprehension of the cause, for our intangible standard of value never changes its name, how great soever may be the extent in which it is contracted or expanded.

It is folly to say that the money of the country is not paper money. In Virginia, Pennsylvania, and Maryland, payments of a less amount than five dollars are made in real money: but in the other States, dollar notes circulate, so that payments in specie are made for only fractional parts of the dollar. In North Carolina, South Carolina, and some other parts of the Union, notes for 25 cents, 12½ cents, and even 6¼ cents, are current. There even small silver change is a rarity.[5]

Of large payments, nine hundred and ninety-nine in a thousand are made with paper. Of small payments, ninety-nine in a hundred. The currency of the country is, we repeat it, essentially a paper currency. The sprinkling of silver has only the effect of keeping up the reputation of the paper. This paper varies in amount, from day to day, from month to month, and from year to year. Every thing that affects the spirit of enterprize, affects com mercial credit, and through that, Bank credit.

The importance of adjusting measures of value with the greatest exactness, is enforced by all who have written on the subject. An order has recently been issued to re-coin the whole of the silver money of France, amounting to not less than eighty millions of dollars, on account

of its having been discovered that the mode of assay by cupellation, indicates but 1000 grains of pure silver in a mass containing 1004 grains. The difference between the legal and the practical standard, is less than a half of one per cent.; yet this difference has been deemed important enough to make necessary a re-coinage of the whole of the silver money of the country. Our own statesmen bear a silent testimony to the truth of this doctrine, by their attempts to determine the ratio of gold and silver, carrying out their calculations in some tables to the five hundredth thousandth part of a grain.

Such is the care that Governments (our own among others) take in fixing metallic standards and measures of value. If by any accident a dollar coined at our mint should contain but 369 grains of pure silver instead of 371¼, it would not be put in circulation. The nicest chemical and mechanical operations are resorted to that the different pieces may have an exact uniformity. But, having done this, our next care is to drive metallic measures of value from the country, and substitute those of the most uncertain nature possible.

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3 "A bill of exchange drawn by an individual or individuals who do not issue notes having the character of currency, appears to us to be clearly distinguished from a Bank note, though it is a substitute, and lessens the amount of currency which would otherwise be required. A payment made in Bank notes is a discharge of the debt, the creditor having no further recourse against the person from whom he has received it, unless the Bank had previously failed. The bill of exchange does not discharge the debt, the person who receives it having recourse against the drawer and every preceding endorser, in case the drawer should fail or refuse to pay. But the essential distinction is, that bills of exchange are only promises to pay in currency: and that the failures of the drawers, drawees, and endorsers, does not in the smallest degree, affect the value of the currency itself; or impair that permanent standard of value by which the performance of all contracts is regulated." –*Gallatin*.

4 "The essential difference between Banking and other commercial business is that merchants rely for the fulfilment of their engagements on their resources, and not on the forbearance of their creditors, whilst the Banks always rely, not only on their resources, but also on the probability that their creditors will not require payment of their demands." –*Gallatin*.

5   It is observed by Mr. White, Cashier of the United States Branch Bank at Baltimore, in a letter to the Secretary of the Treasury, under date of February 30th, 1830: "Congress fixed the relative value of gold at 15 for 1 of silver; and under the natural presumption that gold and silver coin would compose a portion of the general circulating medium, it has also been enacted, that a tender of either of those metals should be the only legal mode of discharging obligations. In practice, however, and in fact, our currency consists altogether of paper. In this State, (Maryland,) and in Pennsylvania, Virginia, and perhaps some others, the fractional parts of a dollar circulate in sufficient quantity to purchase with coin, marketing, or other low priced necessaries; but in the Carolinas, Georgia, and all that great district eastward of Pennsylvania, composing the States most distinguished for commerce and manufactures, and for wealth, there is no transfer of the value of the established unit that is not effected by paper. This Bank paper is sustained by public confidence on a specie basis, considered sufficient to liquidate balances accruing among the several States, and to supply the demands for foreign commerce."

CHAPTER XIII.
Of the "Convertibility" of Bank Medium.

Many who are inimical to paper money in every other form, are friendly to the use of Bank paper, because it is, they say, equal to specie, inasmuch as specie can be obtained for it at the will of the holder.

But what does this "convertibility" amount to ? Though we have between three and four hundred Banks, we have not yet one at every man's door; and, if we had, every man would, in the course of business, be compelled to receive the paper of distant Banks. A man may prefer silver, and yet not choose to walk even half a mile, to have his note changed.

Those whose money dealings are most extensive, like not to offend the Banks by too frequent calls on them for specie. It might lead to a curtailment of their accommodation. They have as deep an interest as the stockholders and the directors in keeping the notes in circulation.[7]

In addition to this, it must be remembered, that Bank paper is "convertible" into only one of those species which should, according to law and constitution, be the money of the United States. An incorrect valuation of gold at the Mint, and paper money together, have driven this precious metal from the country. Bank paper is "convertible" in to silver only, which is inconvenient for large payments, and for transportation to distant places in large amounts.

From this combination of causes, not more than one twentieth of the paper is actually "convertible" at any one time, and herein consists the safety of the Banks. An attempt to convert but one half of the Bank medium, into specie, would, though several months were allowed for the operation, break all the Banks in the country.

Now, can such a "convertibility" make Bank notes "equal" to specie ? We mean equal to specie as money, in its three functions of a circulating medium, and of a standard and measure of value. We know the two articles are equal in the market, but the question is, if they ought to be so.

"Convertibility," so far from being an assurance of the soundness of Bank notes as money, is not even an assurance, for three days together, of their soundness as bills of credit. This is verified in the case of Banks whose paper is in one week at par, and in the next at a discount of fifty per cent.

When the contingencies on which convertibility depend, are taken into consideration, the risk appears so great as of itself to outweigh all the arguments usually adduced in favor of Bank medium.

The practice of the Banks is to make provision for those demands only which it is probable will be made upon them, which provision is seldom for more than one-fifth of the amount of their actual engagements to pay on demand. It is very easy for the Directors to make a mistake in their estimate of probabilities. Events which they could not foresee may occur, and circumstances they cannot control. It is not always easy to say where the line of safety should be drawn; and the Directors are at all times tempted to transcend it, from the desire of making large dividends, and raising the price of their stock in the market. Sudden changes in the political and commercial world, may render the best conducted Banks unable to comply with their engagements, though they may have in store double the amount of specie, which would, in other times, be necessary to support their credit.

On a certain day in 1819, there were but $80,000 between us and universal bankruptcy. This was the whole amount of specie in the United States Bank at Philadelphia; and if that had been exhausted, a shock would have been given to Bank credit, which would have caused a general suspension of specie payments. In 1825, the condition of both England and the United States was hardly less critical. The failure of

two or three of our principal Banks would cause a run upon all the others. They could then comply with but a part of their engagements, and their inability to satisfy the claims of the holders of their notes and of depositors, would render the fulfilment of other money contracts impossible. The credit which Bank notes enjoy, has been called "suspicion lulled to sleep." Events may awaken that suspicion.

Attempts are sometimes made to show the perfect security of the Banks, by contrasting the amount due by them for notes in circulation and for deposites, with the amount falling due to them every sixty or ninety days on account of mercantile paper discounted by them. But such calculations, even when they rest on indisputable data, prove only the ultimate solvency of a Bank. The amount due by the Bank, on account of deposites and on account of notes in circulation, may all be legally demanded in one day; nay, in one hour. A greater amount may be owing to the Bank, but it is payable at different times, and the extremes of the term are sixty or ninety days apart. The individuals who owe this money to the Bank may be rich men: but their ability to pay, within the time agreed upon, depends on the credit of Bank paper being maintained. Let the depositors suddenly withdraw but one-half the amount of specie ordinarily retained by the Banks, and the credit of Bank notes necessarily falls. A portion of the debts due to the Banks may be paid in this depreciated paper; but the Banks will not have the means of satisfying all their creditors. There being little specie in the country, the collection of debts due by individuals to individuals, would be suspended, (if Bank paper should suddenly lose its credit.)

The danger of such an event may not be very imminent; but it is sufficient to show that the stability of Bank medium depends on contingencies which, as they cannot always be foreseen, cannot always be guarded against. What was called "a panic" in England, in 1825, broke up a number of private Bankers who were perfectly solvent, and was near proving destructive to the whole system. If a suspension of specie payments should again occur in this country, we should be left for a time without a sufficient medium of exchanges. Too many men are

now aware of the nature of "inconvertible" Bank paper for it to have general circulation. It would soon run the course of the Continental money, and of the French assignats.

So long as Bank paper is "convertible," more than a certain amount cannot be kept in circulation for a long time without undergoing a sensible depreciation. Hence "convertibility" fixes a limit which Bank issues cannot pass. By carefully watching one another, by attending to the course of foreign exchanges, and by guarding against a drain of specie, the Banks may, in ordinary times, main tain the "convertibility" of their paper; but the history of Banking, both in England and the United States, since the resumption of specie payments, shows that this "convertibility" cannot give to Bank medium that stability which is essential to a sound money system.

In the means by which "convertibility" is maintained, we have an abundant source of evils. It is by one Bank pressing on another, and thereby forcing the debtor Bank to press on its customers. When there is a foreign demand for specie, the "convertibility" of Bank medium is maintained by a general pressure on the community.

Lord Liverpool, in a debate in the British House of Peers, in February 1826, placed the doctrine of convertibility in its true light. "The doctrine," he said, "maintained by some noble lords, that nothing was better than a paper circulation convertible into gold, is true to this extent– that if convertible into coin, the evil would cure itself, whilst one not convertible would lead to nothing but ruin. But how is the cure to be operated ? By the downfall of thousands and hundreds of thousands, and the convulsion of all kinds of property. It is true that the evil carries its own cure, but with such terrible consequences that the cure is worse than the evil."

7 In a debate in Parliament in July 1828, Lord King said, that "as for payment in gold, he knew there was an *esprit de corps* among the Bankers, and people who wished to get accommodations from them would find it no easy thing to obtain gold. The Banker would inquire if the individual was in the habit of asking for gold, and if so, accommodations would be withheld. Paying in gold was not, therefore, that check to over-issues which some people imagined."

CHAPTER XIV.
Of the "Elasticity" of Bank Medium.

The value of Bank medium," says a writer on this subject, "consists in its elasticity – in its power of alternate expansion and contraction to suit the wants of the community. In truth, the merit of a Bank is nearly in proportion to the flexibility of its means."

Most unfortunately for this argument, when the demand for money is greatest, the Banks are compelled to contract their issues. When the natural demand is least, they are able to expand most. These "alternate contractions and expansions" do not, therefore, "suit the wants of the community."

It is not a regard to "the wants of the community" that regulates these "alternate expansions and contractions." It is a simple regard to their own profits that induces the Banks to expand their issues. In contractions, the Banks have regard only to their own safety.

Every thing is not, indeed, left to the arbitrary discretion of the Directors. The natural and political causes that affect trade, affect also their operations.

If wars, or other political operations, cause a flow of specie to a particular point, the Banks are immediately compelled to reduce their issues of paper. As a demand on the Banks for a million of specie usually causes them to reduce their accommodations to the amount of four millions, the pressure on the community is four times as great as it would be if the foreign demand operated singly.

A rise in the price of our staples in foreign markets enables the Banks immediately to expand their issues. The spirit of speculation is then excited, and the Banks supply it with aliment. Hence, immediately after news of a rise in the price of flour and cotton, in foreign markets, these articles rise so high at home that they cannot be exported and sold at a profit abroad. The original holders gain something by selling their stock to the speculators. The price is raised on the domestic consumer; but very little is added to the wealth of the nation, for the rise of price at home causes little to be exported.

To enumerate all the causes that affect expansions and contractions of Bank issues, would be to enumerate all the causes, immediate or remote, that affect trade, or affect the confidence man has in man. Any thing that excites the spirit of enterprize, has a tendency to increase the amount of Bank issues. Whatever damps the spirit of enterprize or of speculation, has a tendency to reduce the amount of Bank issues. As the wild spirit of speculation has in most cases its origin, and in all its aliment, in Banking transactions, these various causes operate in a circle. The Banks, by expanding their issues, give aliment to the wild spirit of speculation when it begins; and by their contractions, they aggravate the evils of the natural reaction.

One of the principal inducements for preferring the precious metals as the material for money, is their want of this very "elasticity" or "flexibility" which the writer above quoted, declares is the principal excellence of Bank medium. The mere desire of one man to have money, and of another to gratify that desire that he may make a profit by it himself, will not increase the supply of the precious metals. The spirit

of wild speculation, therefore, in solid money countries, wants that aliment which is so readily afforded to it in our own. The production of gold and silver requires an expenditure of labor equal to that which must be expended in the production of those articles which gold and silver can procure. The supply is regulated by natural causes which are as powerful as those which regulate the demand.

When an addition is made to the stock of gold and silver in a solid money country, it does not immediately affect prices. It usually comes in the shape of bullion or foreign coin. The importer considers whether a profit may not be acquired by shipping it to some foreign country. If he decides on retaining it, part of it is probably wrought up into plate or jewellery. If he sends it to the mint, some time must elapse before it can be converted into coin. After it is converted into coin, he may not choose to put it immediately into circulation. He may make it part of his reserved stock, and wait for months, perhaps, for an opportunity for making advantageous purchases. If he can make no advantageous purchases at home, he sends the money abroad. Thus while there are powerful causes in operation throughout the commercial world, which make the demand and supply of silver and gold to vary in only an imperceptible degree, from year to year, there are particular causes operating, which make the supply in all solid money countries, just equal to the effective demand, and thereby truly "to suit the wants of the community."

In such countries, when the spirit of enterprize is awakened by fair prospects of a profitable trade, no sudden plentifulness of money follows to convert the spirit of enterprize into a spirit of wild speculation.

If the enterprizes prove unsuccessful, the evil is not aggravated by an artificial scarcity of money.

If wars, or other political operations, create a demand for specie, the pressure is only equal to the foreign demand –not fourfold, as with us.

If there is a rise abroad in the prices of the staples of exports of a solid money country, no sudden increase of currency raises prices so high as to make the exportation a losing business.

Such are the advantages of an "inflexible" and "non elastic" money.

CHAPTER XV.
Is Paper Money Cheaper than Specie ?

The events of the last thirty years, have created a suspicion in most men's minds, that there is something not exactly right in our Banking system. Indeed, the very head of the system, the President of the United States Bank, seems at times half a sceptic as to its utility. He acknowledges that it is attended with great danger; but then he says, "the substitution of credit for coin, enables the nation to make its exchanges with less coin, and of course saves the expense of that coin."

Mr. Gallatin, who is now President of the National Bank at New York, goes still farther. "The substitution of a paper currency for the precious metals, does not," he says, "appear to be attended with any other substantial advantage than cheapness."

Bank notes, it must be confessed, come very cheap to those who issue them. But to those who receive them, Bank notes come as dear as gold and silver. The farmer must give as much of the product of his labor for a paper dollar, as for a silver dollar.

It is alleged by some, that "Bank notes increase the aggregate capital of the community, since they cause silver, which produces nothing, to be exchanged abroad for commodities useful in the arts, or for household consumption."

But it is not true that silver money produces nothing. It is as productive as any other labor saving machine. Its uses in commerce, are as great as those of the steam engine in manufactures.

Neither is it true, that the aggregate capital of the country is increased, when silver coin is displaced by Bank notes. A mere exchange is made of one kind of capital for another. The precious metals are exported, and laces, wines, silks, satins, and ostrich feathers, are received in return. A

nation that carries its consumption of foreign luxuries so far, as to leave itself without a suitable medium for domestic exchanges, may be compared to a mechanic who barters the tools of his trade for the enjoyments of the ale house. *Money is the tool of all trades*.

But on the supposition most favorable to the friends of the Banking system, what sum is gained by the nation by the substitution of paper for specie ?

According to the calculation of Mr. Gallatin, the currency of the country consisted, on the 1st of January, 1830, of about ten millions of dollars in specie, in the hands of the people, of 54 millions of Bank notes, and 55 millions of Bank credits; making a total of 109 millions of Bank medium, for the support of which the Banks keep 22 millions of specie dead in their vaults.

Now, supposing Bank medium to fall into disuse, these 22 millions of specie would be set free, and 87 millions more would be required to bring up our currency to its present amount. What is this, when compared with the whole capital of the country, which is estimated by Mr. Lee of Boston, at ten thousand millions of dollars, and by two other able economists, at twelve thousand millions. What is it, even when compared with the aggregate of incomes, which, according to Mr. Niles and Mr. E. Everett, is one thousand millions a year ?

It should be recollected, that, on the supposition of something being gained by the nation, by the use of paper money, the saving is once for all, and the annual gain is no more than the interest on the amount of medium. Now, the interest on 87 millions, at six per cent., divided among the individuals who constitute our nation, is about 40 cents a piece !

Is it wise, for so trifling a gain, to derange all our monied operations ?

But if the inquiry be pushed further, it will be found that nothing is gained by the nation, (we do not say that nothing is gained by certain persons,) even on the supposition most favorable to the Banks.

For a specie medium, but one mint would be necessary. To maintain paper medium, we have from 300 to 400 paper mints. The expenses of these mints press heavily on the people. The expenses of the Bank of the United States and its offices, are about 500,000 dollars a year.

According to Adam Smith, three million people, in the countries now forming the United States, were governed, and well governed, before the Revolution, at an expense not exceeding 350,000 dollars a year.

The labors of the American people for a few weeks would purchase them a sufficiency of metallic medium, which would not require renewal for a hundred years. To support our paper medium, we are frequently obliged to purchase specie abroad, at a disadvantage. As there is no profit on paper money, except by keeping down the amount of specie in the vaults of the Banks, the precious metals are frequently exported and sold at a loss.

The cheapness or dearness of an instrument, is to be estimated by the annual expense to which it puts us, in addition to its original cost, and by the manner in which it serves the uses intended. Bank medium is a machine which requires continual watching, which is always getting out of order, which requires frequent and expensive repairs, and which, after all, performs its work badly.

Men have passed from one extreme to the other. A hundred years ago, the chief feature in the commercial policy of nations, was the amassing of gold and silver, as a kind of wealth *par excellence*. Now, he is the wisest statesman, who is most successful in driving the precious metals from a country.

In their attempts "to economize specie," as they call their absurd and nefarious policy, they seem to be forgetful of economy in every thing

else. Correct measures of value, it must be confessed, cost something. So, likewise, do correct measures of weight and of capacity. A metallic medium cannot be obtained without paying for it; but whatever it may cost, it is well worth its cost. Our roads and our canals, which are, like money, instruments for facilitating exchanges, cost immense sums. So, also, do our ships, and our manufacturing machinery.

Among labor saving machines, gold and silver coin are entitled to the first place. In no way can a nation invest a portion of its capital more profitably, than in a sound circulating medium. It will return its original cost a hundred fold. Without such a medium, it is impossible for contracts to be complied with in equity, or for productive industry to exert all its energies.

CHAPTER XVI.
Of the Tax paid by the People to the Banks.

The thirty-one chartered Banks of Pennsylvania had, in November 1829, according to the statement of Mr. Gallatin, a nominal capital of $12,032,000. One million three hundred and ten thousand dollars of this amount was invested in real estate, and 4,620,000 in stocks of various descriptions, leaving the Banks 6,102,000 to employ in discounting notes.[8] From the $5,930,000, invested in stocks and real estate, it is to be presumed they derive as much advantage as private persons derive from similar investments. With the remaining 6,102,000, they discount notes to the amount of 17,526,000. On this amount they draw interest at 6.4-10 per cent., for the usage of the Banks is to charge 64 days' interest on loans for 63 days.

The revenue which private capitalists would derive from lending $6,102,000 at the legal rate of six per cent., would be $366,120 per annum. The revenue which the Banks derive from the management of this amount, is 1,121,664 dollars.

If the Banks do not, by the use of a nominal capital of $6,102,000, draw interest from the people on the sum of 17,526,000 dollars, their returns to the Legislature are deceptive. If they actually draw interest on this amount, they draw from the people $755,544 per annum more than would be drawn by private persons lending *bona fide* capital of the same amount as the nominal capital of the Banks.[9]

Supposing the sums paid in each year, since the passage of the Bank act of 1814, to equal that paid in 1829, the total amount paid by the people in sixteen years, over and above six per cent. on the loanable capital of the Banks, is $12,088,704. A direct tax of half the amount for the support of government, would have produced a rebellion.

The Bank of the United States had, on the 1st of November, 1829, a nominal capital of $34,996,270. Of this amount, $11,717,071 were invested in public stocks, and $8,876,404 in real estate, leaving it $19,402,795 of nominal capital for its proper business of accommodating borrowers and dealers in bills of exchange. On this amount of *bona fide* capital lent at six per cent., private persons would draw a revenue of $1,164,167. But the Bank, with this amount of nominal capital, discounts notes and bills of exchange, to the amount of 40,017,445 dollars, from which it derives an annual revenue of $2,561,114, or $1,396,947 more per annum than would be received by private capitalists. In this estimate, we do not include what is paid to the Bank on the rate of exchange, though this must amount to hundreds of thousands of dollars.

Of the tax paid by the people for the support of the local Banks in other States than Pennsylvania, it is not so easy to form an estimate. Mr. Gallatin gives a statement of 297 institutions having nominal capitals of the amount of 97,381,935 dollars, but he does not state what portion of

their capital is invested in stocks and real estate. The loans made by certain local Banks, out of Pennsylvania, having capitals of the amount of 81,363,224 dollars, he states to be 108,341,268; but he gives no statement of the loans made on 20,412,711 dollars of nominal Bank capital. Supposing the loans on this amount to be in the same proportion, the total amount loaned by the local Banks out of Pennsylvania, is 135,522,331 dollars, and the annual Bank interest on it 8,673,427 dollars.

Supposing these Banks to have the same proportion of their capital invested in stock and real estate, as the Banks of Pennsylvania, they have 49,387,015 dollars left for the business of discounting. From such an amount of *bona fide* capital lent at six per cent., private persons would draw an interest of $2,963,220. But the amount the Banks draw is, 8,673,427 dollars, or 5,710,207 more than would be drawn by private capitalists.

The sums, then, extracted from the people, over and above six per cent. on so much of the Bank capital as is employed in discounting, or the tax paid by the people for the support of the Banks, would appear to be--

For the support of the Banks of Pennsylvania, $ 755,544
do. local Banks of other States, 5,710,207
do. United States Bank, 1,396,947
$7,862,698

We cannot pretend to be very exact in our estimate. The local Banks in the other States, may have a greater proportion of their capital invested in stocks and real estate, than the Banks of Pennsylvania, or they may have a less proportion. The total amount of their loans may be greater or may be less than has been calculated from the data furnished by Mr. Gallatin. It is enough to know that the extra interest is millions per annum.

The principle on which this tax is levied, cannot be misunderstood. With a loanable capital of 100,000 dollars, a Bank can,

by the help of its deposits and circulation, make loans to the amount of 200,000 or 300,000. Hence, for every hundred thousand of their own capital employed in discounting, the Banks draw twice or thrice as much interest as is drawn from the same amount in the hands of private capitalists. The gain of the Banks from their practice of taking the discount in advance, and charging 64 days interest on notes which have but 63 days to run, is also considerable.

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8 Some corrections might be made in Mr. Gallatin's estimates, but we take them as we find them, they being accurate enough for the illustration of principles, which is our only object in introducing them.
Algebraic signs would, if they were generally understood, serve the purposes of illustration as well as the most correct estimates.

9 It May, perhaps, be argued, that the "surplus funds" of the Banks ought to be added to their loanable capital. But, as Mr. Gallatin has said, "it will easily be perceived, that what is called the surplus, and sometimes the reserved or contingent fund, is nothing more than that which balances the account, or the difference between the debits and credits of the Banks." The surplus funds of the Banks of Pennsylvania were, in November, 1829, according to Mr. Gallatin's statement, $1,142,000. If it be thought proper to add this amount to the loanable capital, the estimate of the tax paid by the people of Pennsylvania for the support of their local Banks should be reduced from 755,544 to 687,024 dollars per annum. It is of little moment which mode of estimation is adopted. Either proves that the tax amounts to hundreds of thousands of dollars in each year.

CHAPTER XVII.
Of the Formation of Bank Capitals.

When the uninitiated hear of Banks having capitals of 500,000 or of 1,000,000 dollars, they suppose that these institutions had at their commencement, or some time after, real money to this amount. It is a very natural supposition; but not a true one. The Banks create their own capitals in the same manner that they create the money they lend to the people.

The usual method of proceeding is as follows: An act is passed by the Legislature to authorize the establishment of a Bank, and certain persons, called Commissioners, are appointed to receive subscriptions. It is provided in the act that the amount subscribed shall be paid in instalments of five or ten dollars in specie, or the notes of specie-paying Banks, and that after one or two instalments shall have been paid in, the Bank shall commence operations. The first instalment, which we shall suppose to be five dollars on a share, enables the Bank to purchase desks and a counter, and to pay for engraving and printing its notes. It has then the necessary apparatus for commencing operations, and has, perhaps, a specie fund in reserve of three or four dollars for each share of stock, to meet contingencies.

It then begins to discount notes and circulate paper. The spare cash of those who have dealings with it, are deposited in its vaults. This fund enables it to extend its operations. As the Bank notes will serve the purposes of trade in the neighborhood, the specie is sent to distant places to procure commodities. This leaves open a new channel for the circulation of paper: and the Bank increases the amount of its issues. Then comes the time for paying the second, third, or fourth instalment. The Bank makes a call on the stockholders. Some of them hypothecate their stock, that is, pledge it to the Bank, and with the means obtained from the Bank itself pay in their proportion. Others have obtained the means by discounts of accommodation notes, without

any hypothecation of stock. Some few pay in real money: but they generally pay in the notes of the Bank itself, or of similar institutions.

It is by this kind of hocus-pocus that Bank capitals are formed. After the first instalment is paid, the Bank by its own operations, facilitates the paying of the others.

The Bank of Pennsylvania and that of the United States have more pretensions than most others to solidity of capital. It was provided in their charters, that a portion of their instalments should be paid in Government stock. This is not a convenient form for loanable capital, which, it might be supposed, is what Banks should possess. But the peculiar profits of Banks are derived from credit and circulation, and they want no more real capital of any kind than is necessary to support their credit.

It is difficult to say in what the capitals of the other Banks ever consisted, unless it be in what it consists at present – in the promissory notes of individuals. Now, the Banks did not obtain these promissory notes by lending real money of their own, for they had it not to lend. They obtained these promissory notes of the stockholders, by giving in exchange for them the promissory notes of the Bank. Thus Bank capitals are formed by exchanging one kind of promises to pay for another kind of promises to pay.

This mode of forming Bank capitals, with the stock notes of the subscribers, is not peculiar to Banks of the second and third order. The Banks of the most approved standing have formed their capitals in the same way.

The nominal capital of the old Bank of the United States, was ten millions of dollars. One-fifth part of this, or two millions of dollars, was subscribed by the National Government; but the National Government having no money to pay its subscription, professed to borrow from the Bank. And the Bank having no money to lend, passed a *credit* of two millions in its books to the Government on which it paid six per

cent. The Government, in its turn, received the dividends on 5,000 shares of stock of 400 dollars each at par value.

The residue of the capital, or eight millions, was subscribed by individuals, and was to be paid, three-fourths in six per cent. stock, and one-fourth in specie, in four six monthly instalments of five hundred thousand dollars each. "No more," says Dr. Erick Bollman, "or little more than the first instalment, can ever be considered as having been received by the Bank actually in hard money."[10]

The capital of the present Bank of the United States was fixed by its charter at thirty-five millions, of which Government subscribed seven; but Government having, as in the former instance, no money, the Bank granted it a credit to this amount.

The remaining twenty-eight millions of stock were subscribed for by individuals. On each share of the stock, they were, agreeably to the terms of charter, to pay five dollars in gold or silver coin at the time of subscribing; at the expiration of six months the further sum of ten dollars: and at the expiration of twelve months, the further sum of ten dollars. At each of those three periods, twenty-five dollars more were to be paid, on each share, either in United States stock, or in gold and silver coin, at the option of the subscribers.

No more or very little more, than the first instalment of five dollars on each share, was paid in gold or silver coin. The Directors, indeed, proceeded on the principle that no more was necessary. "It is clear," says one of them, "that having commenced business, and put its paper in circulation, it (the Bank) could not enforce the specie part of the second and third instalments of the capital, in new acquisitions of specie. * * * * The Directors acted wisely in discounting the notes of the stockholders, payable in specie, sixty days after date, for the payment of the second instalment."[11]

It is contended by the founders of these institutions, that this mode of forming Bank stock, is perfectly correct. If it is, stock may be created to

almost any amount. The Bank risks nothing, and does not increase its circulation; for the notes which it pays out at one counter in discounting stock notes, are paid in at another counter in subscriptions. The subscribers pay a certain sum to the Bank as borrowers: but they receive back the same amount as stockholders.

The whole business, is nothing but a paper transaction between the Bank and its stockholders. Many of the present owners of stock have paid their hundred dollars' worth of property, or perhaps given an advance of twenty per cent. for the shares they hold: but what they paid, never went to form the capitals of the Banks. They paid it to the original subscribers or to those who bought script from the original subscribers.

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10 Paragraphs on Banks, Philadelphia, 1811. Dr. Bollman was a zealous advocate for the renewal of the charter of the Bank.

11 *A Friendly Monitor*, Philadelphia, published December 15,1819, and re-published September 17, 1822.

CHAPTER XVIII.
Of Speculations in Bank Stock, and of other Stock Jobbing.

It is well worthy of remark, that, though the Banks derive as much profit as private capitalists, from so much of their capital as is invested in real estate and public securities, however they may have got that capital, and however they may have formed it: and though they derive from 12 to 18 per cent. from so much of their capital as is employed in discounting, they do not, on an average, divide more than six per cent. When the

proposal was made to form a "safety fund," by a tax on the Banks, the proprietors of stock in the city Banks of New York objected to it as a great hardship, alleging that they had not, for a series of years, received more than 5½ per cent. per annum. The heavy expenses of these institutions in the payment of Presidents, Cashiers, and Clerks, and the heavy losses that are necessarily sustained when corporate interest superintends the business of lending, are the reasons that the stock holders get much less than the people pay. Such being the fact, the anxiety to establish new Banks might create surprise, if we did not know that the object of the projectors of such institutions is not *to lend* money, but *to make* money. People who have money, can lend it without the intervention of Boards of Directors. They can lend it more securely, and watch over it more easily. But a new Bank will afford to some favored gentleman a snug birth as President for life, and to another an equally snug birth as Cashier. Poor cousins can be very conveniently provided for by giving them clerkships. To some, the new Bank will afford facilities for borrowing; to others, it will afford facilities for lending – at two or three per cent. a month. To those who are to be Directors, it will impart additional consequence in society, and give great advantages over their neighbors in business. Others hope to make fortunes by speculations in the script. To further all these objects, nothing is necessary but a charter from the Legislature, and the means of paying the first instalment. By the convenient contrivance of stock notes, the stock of the Bank can be completed. The circulation and deposits will prove a certain source of revenue.

When a charter is granted, the speculators evince great anxiety to possess the stock, and thereby create an idea that it is something very valuable. In New York, their practice is to subscribe a much greater amount than the nominal capital, and then clamor for a *pro rata* division. In the case of the Broome County Bank, the capital of which was fixed at 100,000 dollars, the subscriptions amounted to eight millions. In Pennsylvania, where subscriptions are not received beyond the amount of nominal capital, draymen and other able-bodied persons are hired by the speculators to get the script for them. They struggle at

the windows with so much violence, as to give and receive severe personal injury. The most disgraceful riots that occur in Philadelphia, are those which are produced by the opening of the books of subscription for a new Bank.

These doings have their effect on simple-minded people; and, from the prospect of large profits, they prefer Bank stock to land and houses. The founders of the Bank kindly spare them some of the script at an advance of five or ten per cent., retaining only enough to keep the control of the institution in their own hands.

Even those who are not simple-minded, do not hesitate to buy the script at an advance, for they hope to sell it at an additional advance. They know that the price of Bank stock in the market is regulated principally by the rate of dividends, and that few make inquiry into the solidity of these institutions, or have, indeed, the means of ascertaining whether, on the winding up of affairs, they can pay fifty cents in a dollar.

From the peculiar nature of their operations, Banks may sustain their credit, and continue to make high dividends, even when nearly all their capital is gone. In one instance, in Philadelphia, a sum equal to the whole capital of a Bank, was actually taken from it by some of its clerks and their coadjutors out of doors, without the Directors knowing any thing about it. The Bank continued its operations as before, supported by its deposits and its circulation. Its stock sold as high in the market as ever. When the defalcation was discovered, the credit of the Bank received a shock. But the Directors called in one or two additional instalments, and the Bank recovered its credit. Its stock is now much above par.

On common gambling principles, speculations in Bank stock are, perhaps, as eligible as speculations in any thing else. But it may be made a question, if executors, guardians, and trustees, act with sound judgment, when they, merely for the sake of facility of management, invest the property entrusted to their care in stocks of this description. The ability of a Bank to pay any thing to the purchasers of

its shares, depends on the ability of the original subscribers to pay their stock notes and accommodation notes, and on the ability of borrowers to pay their promissory notes. This ability depends on various contingencies, all which ought to be duly considered by those who contemplate making permanent investments of the funds in their hands.

In making temporary investments, there is less risk. "The house is crazy," says the weary traveller to himself, "and must fall; but not to-night. I may therefore venture to sleep in it." When it has no profits, the Bank may make dividends on its capital, and the fact be concealed from all but the Directors. If its stock should fall in the market, it may be raised again by a few pretended sales, effected through the instrumentality of brokers.

Sometimes the funds of a Bank are employed in purchasing its stock, and then, if the price offered be sufficiently high, those who have the management contrive to sell their own shares. In 1826, four thousand eight hundred and eighty-three shares of the Franklin Bank of New York, were bought up with the funds of the Bank, at an advance of 62,850 dollars. When an investigation was made of the affairs of the Bank, in 1828, it was found there was not enough left to pay the remaining stockholders 50 cents in a dollar.

When a Bank gets into difficulties, it sometimes sustains itself for a period, and affords its agents a considerable chance of profit, by allowing them to have its notes at a discount, on condition of their putting them in circulation in distant places. On an investigation of the affairs of the State Bank at Trenton, in 1825, it was proved that one of its agents had sold bills of the Bank to the amount of 18,500 dollars, at an average discount of 37½ per cent. The very day before the Bank stopped payment, its notes were quoted in the Philadelphia *Price Current*, at only 1½ per cent. discount.

Every now and then the speculators find it convenient to break a Bank. This enables them to purchase up the notes at a discount, and therewith pay what they owe to the Bank. "There are instances," says

Mr. Gallatin, "in which the stockholders, by paying for their shares in their own notes, and afterwards redeeming their notes with the stock in their name, suffered no loss; and this fell exclusively on the holders of Bank notes and depositors."

In the New York *American*, for June 1825, the following account is given of a mode of operation which was adopted by the knowing ones of that city.

"The mode of proceeding is simple and not expensive, and acquires strength by its own action. We will illustrate it by a case. It is desired to get possession of Insurance Company A, for example. The stock bears a premium in the market, say of five per cent. Enough money is raised among the contributors to pay the premium; and the residue is borrowed from other individuals or companies, on a pledge of the stock A, at par. The original advance of the combination is thus small, and they are thence enabled to be operating in the stock of many Companies at once, till, having acquired a control in the several concerns, they turn out all the old administrators, put in their own men, and then go to work again with renewed energy, and means increased by the whole amount of the capitals they have thus acquired the control of. By artful management, assiduous puffing, magnificent predictions, and supplies of stock skilfully curtailed as the demand increases – any one of the stocks thus owned, may be blown up to an absurd rate – and *spared* as a favor to the public, until the Managers have sold all out, and realized their profits, leaving the new purchasers to come in and assist at the bursting of the bubble."

The Editor of another New York paper, the *Inquirer*, said in June, 1826, that certain men had, "by their bonds, rags, and hypothecation of stock, managed to control a nominal capital of nearly *four millions of dollars* in different institutions, and I do not believe" said he, "the whole confederacy is worth 100,000 dollars."

The same editor afterwards gave a list of thirty-four Banking, Insurance, and other companies, all which, he asserted, were under the control of a certain gang of stock jobbers.

If a Legislature will only grant charters enough, the speculators will have no difficulty in providing a full "assortment" of stocks – Banking, Insurance, and of every other description that may be wanted to suit all the varieties of taste to be found in men and women who have money to part with. If they have one Bank under control, they can use that as a means of putting half a dozen other Corporations into active business. So, the Northern Bank of Pennsylvania was set agoing by means of a *certificate* for thirty-five thousand dollars said to be deposited in one of the New York Banks: and so, the Sutton Bank of Massachusetts was put in operation by means of 50,000 dollars in specie, borrowed for one day from the City Bank of Boston.

Several of the kind of doings described in this chapter, are regarded with horror by Banks which have reputations to sustain. But, in a view of the whole system, it is necessary to take them into consideration. The aggregate of loss sustained by simple-minded people, through such doings, is enormous.

Another way of making money through the medium of incorporated paper-money Banks, is by dealing in Government stocks. Voltaire gives us some insight into this, in one of his letters from Ferney, in Switzerland.

"Here I am," he says, "living in a way suited to my habits, and caring but little for to-morrow; for I have a friend, a Director in the Bank of France, who writes to me whenever money is to be made in the public funds. Some times he writes to me desiring me to sell, because the Bank is going to withdraw its notes: at other times, he bids me to buy, for we are going to issue a quantity of notes; and so, through the kindness of my friend, I always make money, though living two hundred miles from Paris."

CHAPTER XIX.

Of the Ways and Means by which Bank Charters are obtained and renewed.

When a bill was under consideration in the year 1828, to renew the charter of the New York State Bank, General Root, then speaker of the Senate of that Commonwealth, made a speech, from which the following is an extract:

"This Bank was chartered in 1803. Who were the original applicants, and what were the representations made to the country members, it is not necessary to state: at all events, it was to be a State Bank, and a democratic one. I was urged to be a subscriber to the Bank; it was said the shares were to be scattered over the State, and the members of the Legislature were to have shares. It was one of the most open, palpable, barefaced acts of bribery that can be imagined. I was induced to subscribe; but I lost all the shares but a few: they said they had lost the subscription paper, or some such thing. So I told them I would not take any. Afterwards a gentleman who came from Albany to Delaware [*i.e.* Delaware county, N.Y.] brought me a script for eight shares. I told them I would not have any; so they kept them to themselves, I suppose."

In the year 1816, Mr. Hopkinson, of Philadelphia, had the boldness to declare in Congress, that he considered the litter of Banks lately created in Pennsylvania, as the offspring of private legislation and legislative fraud.

A few years since, a senator from Philadelphia County, was heard to lament that a number of shares had been reserved for him in a certain Corporation, the bill for establishing which, he had assisted in passing through the Legislature. The speculation turning out unfortunate, he had lost, instead of gaining, by his services as a stock jobbing lawgiver.

There was great struggling for the script of the Spring Garden Bank. But we know a member of the Legislature who merely intimated his wish to have a certain number of shares in that Institution, and his wish was gratified.

A distinguished statesman has lately intimated "that there is no law against the Banks subsidizing the Public press." With equal truth, it may be said, that there is no law to prevent members of the Legislature from partaking of the advantages of the Corporations they themselves establish. Still it is proper that such facts should be known.

Another great inducement with members of the Legislature to vote for new Banks, is that they may have the means of rewarding the township and ward politicians, the "delegates" and "conferees," to whom they are indebted for their nominations. In selecting "Commissioners," they have the means of paying a debt of gratitude to some men, and of laying others under personal obligations which they hope will not be forgotten.

To get a majority to vote for a new Bank, is, in some instances, no difficult undertaking. In Pennsylvania, there is a mode of running bills through both houses, known technically as "log-rolling." The figure of speech is borrowed from the practice of the original settlers, who, after cutting down the trees on their tracts of land, used to assemble together to roll the logs into heaps. What could not be done by one man, the united strength of many made easy. In like manner, the members of the Legislature who are interested in local, personal, or corporation bills, unite their strength, and roll them all through both houses. In this way, it may chance that fifty or a hundred bills are passed in the course of a session, each of which, if suffered to rest on its own merit, would have been rejected.

Many members of the Legislature are averse to this practice; but some of them are reluctantly brought into it, by the refusal of the "log-rolling" members to vote for good public bills, unless their own private bills are passed at the same time.

The same system is known in the other States, by other names; and it will readily be believed, that where it prevails, special privileges will be conferred on companies under any and every pretext. Such is the effect it has on American Legislation, that a stranger, on inspecting the list of acts annually passed, might suppose our State Governments had been established for the special benefit of stock-jobbers and speculators. In 1826, the Governor of Massachusetts declared that, within the preceding five years, charters had been granted to corporations within that Commonwealth, with authority to hold thirty millions of property. This was exclusive of charters to Banking, Insurance, Canal and Rail Road Companies. The Governor of Delaware stated, in his official message in 1825, that there were then *eighty* corporations in that small State.

No doubt many legislators think that, in voting for new Banks, they are promoting the welfare of their constituents. But the prevalence of false views of the money corporation system, in legislative bodies, is to be attributed mainly to the exertions of those members who have a personal or political interest in establishing and supporting such institutions.

If a Bank only preserves a tolerable credit, the renewal of its charter follows as a matter of course. At least, we have met with no instance on record, of refusal to renew the charter of a State Bank which had not committed some open act of bankruptcy. How far a Bank may be entitled to the credit it enjoys, is seldom inquired into. Too many interests are then concerned. Those who have bought stock at second hand, know not, if the Bank were compelled to wind up, if its assets would cover its debts. Some of the borrowers from the Bank feel alarmed, for, if called on to pay what they owe, their insolvency may be made apparent, and the means of living in splendor be taken away from them. A clerkship of 600 dollars per annum, makes a man a firm friend of the Banking system: and he who has had an accommodation note discounted, of the amount of only 500 dollars, feels unpleasant if you hint at the possibility of a charter's not being renewed. Such is the weakness of human nature, that if a man owns only a hundred dollars'

worth of stock, it makes him less an enemy to money corporations than he otherwise might be.

Whenever the Legislature creates a Bank, it, at the same time, creates an interest sufficient to sustain that Bank, under all circumstances but those of open bankruptcy. And, as if to give these various interests as much power as possible, it has been contrived in Pennsylvania, that the charters of nearly all the Banks shall expire at the same time.

The extent of Bank influence is not easily appreciated. It is seldom we see a "Bank ticket," or a "money corporation ticket," on the election ground: but when questions are agitated which affect this interest, the Banks have agents at work, whose operations are the more effective because they are unseen. The result usually is, placing the names of friends of paper money on all the tickets.

Over the periodical press, the Banks have great power. Few journalists can venture to expose the money corporation system, in such plain terms as every body would understand, without risking the means of support for themselves and families. Newspaper editors have as much independence of principle as other men; but they are far from being independent in circumstances. The neglect of subscribers to pay up arrears, has brought many of them in debt to the Banks. Others who are not in debt, are supported principally by the patronage of the Banking interest.[12]

In England it is possible to assail both the ecclesiastical and the hereditary aristocracy, through the medium of the periodical press. Under all the evils the people of that country suffer, they have the consolation of enjoying freedom of discussion: but, notwithstanding our boasted liberty in the United States, free and full expositions of the principal cause of our social evils would not be tolerated.[13]

In some respects, the Banks have more power than the Government itself. They hold the purse-strings of the nation. They can buy off enemies, and they have the means, in various ways, of rewarding

friends. *Their* fund for the circulation of pamphlets is not easily exhausted. They require no formal treaties to induce them to act in concert. They are ready organized for all occasions. The direct power their charters give them, and the additional power they acquire by their diversified operations, make them all but resistless.

In the United States, there always have been, and there are now, a great number of men opposed to the money corporation and paper money system; but their opposition has produced little effect. In the Bank controversy, there is, on the one side, the strong feeling of private interest supported by party discipline; and, on the other side, the comparatively weak feeling of patriotism, without any aid from party organization. The friends of the Banking system act in concert; its opponents act singly, if they act at all. Against any kind of action, there are various discouragements. If a proposition is made to establish a new Bank, it seems hardly worth while to oppose it, for one Bank more or less can have no great effect. The question immediately occurs on such occasions, why should not these men, as well as others, be permitted to share the profits of Banking ? Every new Bank does, indeed, increase the difficulty of reform; but the prospect of reform seems so remote as to be with many thought hardly worthy of attention.

Other difficulties arise from the system's having received the sanction of the Federal Government, as well as that of the State Governments. If any one of the States was disposed to establish a system of sound currency and sound credit, it would find the work impracticabla so long as a paper money Bank incorporated by the United States Government continues in existence. If a proposition is made to suffer the charter of the United States Bank to expire, we are startled with the horrors of a multitude of State Banks, issuing paper without limits, and failing to redeem their notes with specie.

It ought to excite no surprise that, under such circumstances, the paper money system has, notwithstanding the great evils it has produced, been prolonged to the present time, and that it is daily strengthening and

extending itself. To get rid of it suddenly is impossible. To remove it would require a regular plan of operations, the carrying of which into effect would employ a series of years. Such a plan of operations could be carried into effect by a party which would be willing to sacrifice all merely personal predilections and antipathies for the grand object of breaking down the money corporation and paper money system, and restoring to the great body of the American people their *natural* right of acquiring property by industry and economy.

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12 In a speech in Congress in 1816, Mr. Calhoun, referring to the state of the currency, said, "the evil he desired to remedy, was a deep one; almost incurable; because connected with public opinion, over which Banks have a great control: They have, in a great measure, a control over the press; for the proof of which he referred to the fact, that the present wretched state of the circulating medium, had scarcely been denounced by a single paper in the United States."

13 "Previous to commencing this pamphlet," says Mr. Carey, in a publication made in 1816, "and during its progress in my hands, prudence and discretion have been constantly exerting themselves to repress my zeal, and to deter me from the undertaking. They have incessantly spread before my eyes the risk of offending those powerful bodies, the Directors of the Banks, who have so many opportunities of making their indignation be felt, and some of whom may not be above the mean and malignant desire of availing themselves of those opportunities.

"To the soundness of these suggestions, I must freely assent. It is plain and practicable. And were I to consult my own personal advantage or comfort, I should bow down in humble submission to their authority. I am well aware of the risk I run. I know if there be at any of the Boards any portion of malice or resentment, (and were there ever twelve men assembled together without a portion of malice and resent men?) it will be roused into action to persecute the man who has dared to arraign their institutions at the bar of the public, and to accuse them of gross errors, which have produced a fertile crop of misfortunes and distress to our citizens.

"Another consequence equally clear, is present to my view. One Bank Director, actuated by malice and resentment, would do me more injury in a day, than one hundred of those whose cause I undertake to defend, would do me good in seven years. The malice of the one would be strong, lasting, insatiable, and as vigilant as Argus, with his hundred eyes, to gratify his spleen. The friendship, or the gratitude, of the others would be cold, torpid and lifeless."

Mr. Carey then was, and perhaps still is, a supporter of the Banking system. The object of his letters was simply to investigate the policy of a curtailment of accommodations made by the Banks.

CHAPTER XX.

Summary View of the Advantages which the System gives to some men over others.

If two individuals should trade with one another, on the same principle that the Banks trade with the community, it would soon be seen on which side the advantage lay. If A should pay interest on all the notes he gave, and finally pay the notes themselves with his own wealth, and if B should receive interest on all the notes he issued, and finally pay the notes themselves with A's wealth, A's loss and B's gain would be in proportion to the amount of transactions between them.

This is the exact principle of American Banking operations; but, owing to the multitude of persons concerned, the nature of the transaction is not discovered by the public. Regard the whole Banking interest as one body corporate, and the whole of the rest of the community as one body politic, and it will be seen that the body politic pays interest to the body corporate for the whole amount of notes received, while the body corporate finally satisfies the demands of the body politic by transferring the body politic's own property to its credit.

In private credit, there is a reciprocity of burdens and of benefits. Substantial wealth is given when goods are sold, and substantial wealth is received when payment is made, and an equivalent is allowed for the time during which payment is deferred. If A took a note from B, endorsed by the richest man in the country, he would require interest for the time for which payment was postponed. But the Banking system reverses this natural order. The interest which is due to the productive classes that receive the Bank notes, is paid to the Banks that issue them.

If the superior credit the Banks enjoy, grew out of the natural order of things, it would not be a subject of complaint. But the Banks owe their credit to their charters – to special acts of legislation in their favor, and

to their notes being made receivable in payment of dues to Government. The kind of credit which is created for them by law, being equipollent with cash in the market, enables them to transfer an equal amount of substantial wealth from the productive classes to themselves, giving the productive classes only representatives of credit, or evidences of debt, in return for the substantial wealth which they part with.

To test the Banking principle fairly, let us bring down our minds from a country to a county, and, to give definiteness to our ideas, let us, in all instances, make round numbers the basis of our calculation.

Suppose a county to contain a thousand families of ten persons each, and each family to be worth 5,000 dollars. The wealth of the community is, then, 5,000,000 dollars. One-tenth of this wealth, or 500 dollars for each family, we will suppose to be in silver money. The rest is in land, houses, and various commodities. The state of credit in this county is as sound as the state of the currency. The distribution of wealth is left to natural laws. The *production* and acquisition of riches are never separated. Every man enjoys what he produces, and what he saves; and no man enjoys what is produced or what is saved by another. We will suppose the income of this community to be 1,000,000, dollars, or 1,000 dollars a year for each family, and that 700,000 dollars of this aggregate income is derived from industry, and the rest from capital, profits being at the rate of six per cent.

In this county are ten men of a speculative turn of mind, who grow tired of working and saving, and wish to grow rich in some more easy way. They apply to the Legislature for a charter for a Bank, with a nominal capital of 100,000 dollars, divided into a thousand shares of 100 dollars each: and their prayer is granted. It is provided in the charter that, as soon as five dollars shall be paid on each share, the Bank shall commence operations. The payment of the other instalments is, according to the custom of Pennsylvania, left to the discretion of the Directors.

The business of Banking is new in this county, and as none clearly understand its operation but the ten speculators, they subscribe for the whole of the stock, or for one hundred shares each. Each of them pays down 500 dollars, making the whole capital paid in, 5,000 dollars.

The Bank then commences business, and issues notes to the amount of 25,000 dollars. By the contrivance of "convertibility," and by another contrivance by which they are made receivable in payment of dues to Government, the notes become current. The notes are borrowed by the speculators. Each speculator has then 2,500 dollars at command, instead of 500. It is true, he pays interest to the Bank as a borrower: but he receives the same interest back as a stockholder. It is evident that the equality of wealth is destroyed. The possession of a monied capital so much greater than that of his neighbors, will give him advantages in trade equal to double the amount of interest. But, estimating his advantages as equal to only six per cent., his annual income is increased from 1000 dollars to 1120, his 500 dollars formerly yielding him but 30 dollars a year, and now, by their conversion into Bank stock, yielding him 150 dollars; for, each metallic dollar is, by this contrivance, made to produce to him as much as five did formerly.

But this is only the first operation of the Bank. Some of the families in the county deposit their silver in the vaults of the Bank, for safe-keeping. Other families, finding that Bank notes serve all the purposes of domestic trade, export their silver. This creates a new demand for Bank notes as a circulating medium. In time, the Bank finds that its permanent deposits of silver are not liable to be reduced beyond a certain amount: and to increase its profits, it lends a great part of the silver to those who export it.

It may require some years to bring the machine into complete operation. The "prejudices" of some men against paper, and in favor of metallic money, are not easily subdued. But even those with whom the "prejudices" remain, are brought at length, through the force of example, through necessity, or through some other cause, to make deposits in

Bank, and to pay and receive Bank paper. Bank medium then becomes the money of the county: and as soon as this is accomplished, the regular receipts of the Bank may be estimated as follows:

On 100,000 of Bank notes lent, at 6.40, — $6,400
On 100,000 of active Bank credit lent, — 6,400
On 100,000 of silver deposited by some, and lent by the Bank to others who export it, – 6,400
$19,200

On this supposition, 200,000 of metallic money will be left in the county, half of which may be in the vaults of the Bank, and the other half circulate as the medium of retail trade.

In our haste we passed over the payment of the second, third, and subsequent instalments of the stock. It was not of much moment. The payments were merely nominal. The speculators could easily have paid all the instalments, after the first, by the profits derived from the operations of the Bank itself. But where would have been the use of this ? The money, if paid in, would have been lent and exported. It would have added something to the income of the Bank. But each speculator can make as much by keeping it in his own hands. The original sum of 5,000 dollars, and so much of the silver of depositors as is retained, are sufficient to support the credit of the Bank. Each of the speculators, therefore, throws in a note for 500 dollars, when the second instalment becomes due. The Bank discounts it: pays out its own paper at one counter, and receives it back at another, or, perhaps, only makes a new credit entry in its books. It is true, that the speculators are made debtors to the Bank for a certain amount as borrowers: but they are credited with an equal amount as stockholders: and in this way the whole of the remaining instalments may be arranged. By this contrivance the sum of 95,000 dollars will be added to the debts due to the Bank, but nothing to its circulation or responsibilities.

The time has now come, in which the speculators may sell a part or the whole of the stock. They may with safety dispose of seven hundred and

fifty shares, to widows, orphans, and literary and charitable institutions, for these will never interfere with Bank management.

We will deduct 9,200 dollars from the gross income of the Bank, for expenses, losses, and reservations for a contingent fund. It will then be able to divide ten per cent. on its nominal capital: and at the rate at which permanent annuities are calculated, stock yielding ten per cent. will be estimated as worth in the market 150 dollars a share. Each of our speculators sells seventy-five shares of his stock at this rate, or for 11,255 dollars, and invests the proceeds in land, houses, or merchandise. The risk of payment to the Bank of the notes discounted, he transfers to the purchaser of the stock.

Thus we see that our ten speculators have, by the "judicious" use of 5,000 dollars of metalic money, got transferred to them 112,550 dollars' worth of real and personal estate. Retaining two hundred and fifty shares of stock, they keep the control of the institution in their own hands.

Now, we pretend not to say that the accounts of any one of our American Banks would, if faithfully exhibited, accord in every particular with this supposed case. Their profits do not appear to be usually as great: but extreme cases serve best to illustrate principles; and these are the fundamental principles of the American Banking System. A small amount of metalic money is paid in: the other instalments are arranged by the discounting of stock notes. The Bank extends its operations by discounts on deposits, and by substituting a paper for a metalic medium: and, at a suitable time, the founders of the Bank sell a portion of the stock, and invest the proceeds in lands, houses, and merchandise.

The Bank of Chester had, on the 3d of November, 1829, a capital of 90,000 dollars, notes in circulation to the amount of 209,064 dollars, and deposits to the amount of 166,374 dollars. The specie in its vaults amounted to 61,462 dollars, and the investments on which it was drawing interest amounted apparently to 451,663 dollars. The circulation and deposits of the Bank of Chester, were altogether

375,438. Those of the Bank in the case supposed, for the sake of illustrating the principle, were only 300,000 dollars. The investments of the Bank of Chester, yielding interest, amounted to 451,663. Those of the supposed Bank, to only 395,000, including the stock notes of the ten founders of the Bank.

It may be, that the whole 90,000 of the capital of the Bank of Chester was paid in, without any resort to discounting of stock notes, or any similar contrivances. But if it was, there was nothing in the principles of the system to prevent the stock of the Bank of Chester from being filled up in the way which is usual in establishing new Banks in America. The Bank of Chester County having gone into operation in the year in which specie payments were suspended, the filling up of its stock must have been an easy process, whatever method was adopted.

As it is public credit that supports the Banks, and not the Banks that support public credit – as the deposits of the Banks are the property of the community generally, and as the profits derived from circulation come from the community generally, they ought to go to the community generally, and be used (if used at all) to lighten the burdens of taxation. "If," says Ricardo, "a charter were about to expire, the public might question the policy of permitting a company to enjoy all the advantages which attend the supplying of a great country with paper money. Paper money may be considered as affording a seignorage equal to its whole exchangeable value – but seignorage in all countries belongs to the State."

If, after the manner of the Scotch Banks, the American Banks paid four per cent. interest on deposits, and granted discounts at the rate of five per cent. there would be some thing like equity in this department of their operations, for one per cent. would not be more than a fair commission. But they allow no interest on deposits, except in Boston, and perhaps in Baltimore, though it is, in point of fact, through the means of the deposits, that they support the credit of the notes they have in circulation.

But the reader will have a very imperfect idea of the advantages the present Banking system gives to some men, if he extends his view no further than the profits derived from trading on deposits, from substituting a credit medium of commerce for a metallic medium, from the formation of Bank stock *secundum artem*, and the subsequent exchange of that Bank stock for lands, houses and merchandise.

In addition to this, he must take into consideration–

What some have gained and others have lost, by the various kinds of stock jobbing and usury, to which Banking has given rise:

What some have gained and others lost, by that fluctuation of prices which is produced by "contractions" and "expansions" of Bank medium, and which has made most kinds of business more uncertain than a lottery:

What some have gained and others lost, through that super-extended system of commercial credit, which has its origin and support in Banking:

What some have gained and others lost, by the breaking of upwards of one hundred and sixty Banks between the years 1811 and 1830:

What some have gained and others lost, through the circulation of counterfeit notes:

What some have gained and others lost, by receiving genuine notes at one rate, and passing them at another:

Let him add all these accounts together, and he will have a pretty correct idea of what some have gained and others have lost by the direct operations of the system.

CHAPTER XXI.
Of the Remote Consequences of the System.

Our view of the extent to which paper-money Banking affects our social condition, will be very imperfect, if we confine it to the direct operations of the system. These are, as it were, but the first links of a long extended chain. Each effect becomes in its turn a cause; and the remote consequences are of more importance than the immediate. To prove this, a few plain truths will suffice.

If two men start in life at the same time, and the one gets, at the commencement, but a small advantage over the other, and retains the advantage for twenty or thirty years, their fortunes will, at the end of that period, be very unequal.

If a man at the age of twenty-one years, is deprived of one hundred dollars which he had honestly earned, and honestly saved, the injury done to this man must be estimated by the advantage he would have derived from the use of his little property during the rest of his life. The want of it may prevent his turning his faculties to the best account. The loss may dispirit his future exertion.

If a man is, at any period of his life, deprived of a property, large or small, accumulated for him by the honest industry and economy of his ancestors, the wrong done to him is of the same character as that which he sustains when he is unjustly deprived of property which was the fruits of his own industry. It is the dictate of nature that parents shall leave their wealth to their children, and the law of the land, in this case, only confirms the dictate of nature.

It is not easy to set bounds to the effects of a single act of injustice. If you deprive a man of his property, you may thereby deprive him of the means of properly educating his children, and thus affect the moral and intellectual character of his descendants for several generations.

Such being the consequences of single acts, we may learn from them to estimate the effects of those political and commercial institutions which operate unequally. They lay the foundation of an artificial inequality of wealth: and, whenever this is done, the wealth of the few goes on increasing in the ratio of compound interest, while the reflux operations of the very causes to which they owe their wealth, keep the rest of the community in poverty.

Where the distribution of wealth is left to natural and just laws, and the natural connection of cause and effect is not violated, the tendency of "money to beget money," or rather of wealth to produce wealth, is not an evil. A man has as strong a natural right to the profits which are yielded by the capital which was formed by his labor, as he has to the immediate product of his labor. To deny this, would be to deny him a right to the whole product of his labor. The claims of the honest capitalist and of the honest laborer, are equally sacred, and rest, in fact, on the same foundation. Nor is it the law of nature that the idle and improvident shall suffer temporary inconvenience only. By neglecting to form a capital for themselves, they render their future labor less productive than it otherwise might be: and finally make themselves dependent on others for the means of both subsistence and employment.

But, unequal political and commercial institutions invert the operation of the natural and just causes of wealth and poverty – take much of the capital of a country from those whose industry produced it, and whose economy saved it, and give it to those who neither work nor save. The natural reward of industry then goes to the idle, and the natural punishment of idleness falls on the industrious.

Inasmuch as personal, political, commercial, and accidental causes, operate sometimes in conjunction, and some times in opposition, it is difficult to say, in individual cases, in how great degree wealth or poverty is owing to one cause or to another. Harsh judgments of rich and poor, taking them individually, are to be avoided. But it is notorious, that, as regards different classes in different countries, wealth

and poverty are the consequences of the positive institutions of those countries. Peculiar political priviliges are commonly the ground of the distinction: but peculiar commercial privileges have the same effect: and when the foundation of the artificial inequality of fortune is once laid, (it matters not whether it be by feudal institutions or money corporations,) all the subsequent operations of society tend to increase the difference in the condition of different classes of the community.

One consequence of unequal institutions is increasing the demand for luxuries, and diminishing the effective demand for necessaries and comforts. Many being qualified to be producers of necessaries, and few to be producers of luxuries, the reward of the many is reduced, and that of the few raised to an enormous height. The inventor of some new means of gratification for the rich, is sure to receive his recompense, though thousands of able-bodied men may be starving around him.

This may be illustrated by a case drawn from England, where the favorite opera-singer receives her thousands per annum, while the able-bodied agricultural laborer is forced to draw on the parish rates for subsistence.

Something similar to it may be found in our own country, where the second rate singers, dancers, and players of Europe, accumulate fortunes in a few years, while multitudes of humble but useful women in all our large cities, struggle hard for the means of a bare subsistence.

Now, there is no cause of complaint in people's lavishing their thousands on favorite singers and dancers, if those thousands have been honestly earned and fairly got. But if they owe their thousands to political or commercial institutions operating specially to their advantage, those political and commercial institutions are not of the kind most conducive to social happiness.

Through all the operations of business, the effects of an unequal distribution of wealth may be distinctly traced. The rich have the means of rewarding most liberally the professional characters whom they

employ, and the tradesmen with whom they deal. An aristocracy in one department of society, introduces an aristocracy into all.

These effects are, it is true, most obvious in countries where the causes of an artificial inequality of wealth are of a permanent character, and connected with political organization: but they can be discovered in our own country. The inequality of reward our lawyers and physicians receive, is caused but in part by inequality of talent. It is owing in part to the inequality of the means of those who employ them: and to the disposition the many have to prefer the lawyer or the physician who is patronized by the rich and fashionable. They feel that their own education disqualifies them for forming a proper estimate of professional talent, and take the judgment of those they suppose must, from their superior wealth, have better means of information.

It is, however, among the hard-working members of society, that the ultimate effects of such causes are most observable.

The condition of a multitude of poor women in our large cities, has lately attracted the attention of the benevolent. It appears from the statements that have been published, that they can, by working ten or twelve hours every day, earn no more than from seventy-five cents to a dollar a week. Half of this sum goes for house rent and fuel, leaving them from thirty-seven and a half cents to fifty cents a week for food and clothing for themselves and children. Some thousands are said to be in this situation in Philadelphia alone.

Various proposals have been made to better their condition: some futile, others absolutely pernicious. The laws of supply and demand are too powerful to yield to sermons and essays. The low rate of the wages of these poor women, is the effect of general causes – causes which affect, in one way or another, every branch of business. In the great game we have been playing, much of the wealth of the country has passed into a few hands. Many men dying, have left nothing to their widows and children; and others who still live, cannot support their families, except by the additional industry of their wives. The work of a seamstress can

be done by a woman in her own house, in the intervals she can spare from attention to her children. In this way, the number of seamstresses has been increased.

On the other hand, many families who would gladly employ these poor women, are compelled by their own straitened circumstances, to do this kind of work themselves. In this way the demand for seamstresses is diminished.

Private benevolence may improve the condition of individuals of this class: but the class itself can be benefitted by such causes only as will diminish the number of seamstresses or increase the demand for their labor. The cause that will improve the condition of one of the industrious classes of society, will improve the condition of all. When an end shall be put to unfair speculation, then, and not till then, will honest industry have its just reward.

CHAPTER XXII.
Effects on Moral Character.

The practices of trade seem, in most countries, to fix the standard of commercial honesty. In the Hanse towns and Holland, while they were rising to wealth, this standard was very high. Soldiers were not more careful to preserve their honor without stain, than merchants were to maintain their credit without blemish.

The practices of trade in the United States, have debased the standard of commercial honesty. Without clearly distinguishing the causes that have made commerce a game of hap-hazard, men have come to perceive clearly the nature of the effect. They see wealth passing continually out of the hands of those whose labor produced it, or whose economy saved

it, into the hands of those who neither work nor save. They do not clearly perceive how the transfer takes place: but they are certain of the fact. In the general scramble they think themselves entitled to some portion of the spoil, and if they cannot obtain it by fair means, they take it by foul.

Hence we find men, without scruple, incurring debts which they have no prospect of paying.

Hence we find them, when on the very verge of bankruptcy, embarrassing their friends by prevailing on them to indorse notes and sign custom-house bonds.

Instances not unfrequently occur of men who have failed once or twice, afterwards accumulating great wealth. How few of these honorably discharge their old debts by paying twenty shillings in the pound !

How many evade the just demands of their creditors, by privately transferring their property.

It is impossible, in the present condition of society, to pass laws which will punish dishonest insolvents, and not oppress the honest and unfortunate.

Neither can public opinion distinguish between them. The dishonest share the sympathy which should be given exclusively to their unfortunate neighbors: and the honest are forced to bear a part of the indignation which should fall entirely on the fraudulent.

The standard of commercial honesty can never be raised very high, while trade is conducted on present principles. "It is hard," says Dr. Franklin, "for an empty bag to stand upright." The straits to which many men are reduced, cause them to be guilty of actions which they would regard with as much horror as their neighbors, if they were as prosperous as their neighbors.

We may be very severe in our censure of such men, but what else ought we to expect, when the laws and circumstances give to some men so great advantages in the great game in which the fortunes of the whole community are at issue – what else ought we to expect, but that those to whom the law gives no such advantage, should exert to the utmost such faculties as remain to them in the struggle for riches, and not be very particular whether the means they use are such as the law sanctions or the law condemns.

Let those who are in possession of property which has been acquired according to the strict letter of the law, be thankful that they have not been led into such temptations as those on whom the positive institutions of society have had an unfavorable influence.

But, Banking has a more extensive effect on the moral character of the community, through that distribution of wealth which is the result of its various direct and remote operations. Moralists in all ages, have inveighed against luxury. To it they attribute the corruption of morals, and the downfall of nations. The word luxury is equivocal. What is regarded as a luxury in one stage of society, is, in another, considered as a comfort, and in a still more advanced stage as a necessary. The desire of enjoyment is the great stimulus to social improvement. If men were content with bare necessaries, no people would, in the arts and sciences, and in whatever else renders life desirable, be in advance of the lowest caste of the Hindoos, or the unhappy peasantry of the most unhappy country of Europe.

But, whatever moralists have said against luxury, is true when applied to that artificial, inequality of fortune which is produced by positive institutions of an unjust character. Its necessary effect is to corrupt one part of the community, and debase the other.

The bare prospect of inheriting great wealth, damps the energies of a young man. It is well if this is the only evil it produces. "An idle man's brain," says John Bunyan, "is the devil's workshop." Few men can have much leisure, and not be injured by it. To get rid of the *ennui* of

existence, young men of wealth resort to the gambling table, the race ground, and other haunts of dissipation. They cannot have these low means of gratification, without debasing those less favored by fortune.

The children of the poor suffer as much in one way, as the children of the rich suffer in another. The whole energies of the father and mother are exhausted in providing bread for themselves and their family. They cannot attend properly to the formation of the moral character of their offspring – the most important branch of education. They can ill spare the means to pay for suitable intellectual instruction. Their necessities compel them to put their children to employments unsuited to their age and strength. The foundation is thus laid of diseases which shorten and imbitter life.

Instances occur of men, by the force of their innate powers, overcoming the advantages of excess or defect of wealth; but it is true, as a general maxim, that, in early life, and in every period of life, too much or too little wealth, is injurious to the character of the individual, and, when it extends through a community, it is injurious to the character of that community.

In the general intercourse of society, this artificial inequality of wealth produces baneful effects. In the United States, the pride of wealth has more force than in any other country, because there is here no other pride to divide the human heart. Some of our good republicans do, indeed, boast of a descent from the European nobility; but when they produce their coats of arms, and their genealogical trees, they are laughed at. The question is propounded, if their noble ancestors left them any money. Genius confers on its possessor a very doubtful advantage. Virtue, with us, as in the days of the Roman poet, is viler than sea weed, unless it has a splendid retinue. Talent is estimated only as a means of increasing riches. Wealth alone can give permanent distinction, for he who is at the top of the political ladder to-day, may be at the bottom to morrow.

One mischief this state of things produces, is, that men are brought to consider wealth as the only means of happiness. Hence they sacrifice honor, conscience, health, friends – every thing, to obtain it.

The other effects of artificial inequality of wealth, have been treated of at large, by moralists, from Solomon and Socrates downwards. To their works, and to the modern treatises on crime and pauperism, we refer the reader. The last mentioned treatises are, for the most part, only illustrations of the ultimate effects of positive institutions, which operate unequally on different members of the community.

CHAPTER XXIII.
Effects on Happiness.

The inferences the intelligent reader must have drawn from what has already been stated, preclude the necessity of much detail in this part of our inquiry.

Wealth is, if independently considered, but one among fifty of the causes of happiness: and poverty, viewed in the same light, is but one among fifty of the causes of misery. The poorest young man, having health of body and peace of mind, and enjoying the play of the social sympathies, in the affections of wife, children and friends, is happier than the richest old man, bowed down with sickness, oppressed with anxiety for the future, or by remorse for the past, having nobody to love, and beloved by nobody.

But though we may, by mental abstraction, consider wealth independently, or poverty independently, neither the one or the other is absolutely independent in its operation. There is no cause in either the physical or the moral world, but which works in conjunction with other

causes. Health of body and peace of mind, with the just play of the social affections, may give happiness, independently of wealth: but in extreme poverty, it is difficult to preserve either health of body or peace of mind, and the play of the social affections becomes then a source of misery.

Some little wealth, at least enough for daily subsistence, is necessary for the enjoyment of life and the pursuit of happiness: and hence it is, that the right to property is as important as the right to life and the right to liberty. "You take my life when you do take the means by which I live."

The majority of men are of such temperament, that something more than the means of subsistence for the bare twenty-four hours, is necessary for their happiness. They must also have a prospect of enjoying the like means of subsistence in future days. But this is a prospect which, with the reflecting part of the poor, is frequently overcast with clouds and gloom. Few journeymen mechanics are able to make adequate provision for sickness and old age. The wages of a laborer will support him and his family while he enjoys health and while employment is steady: but in case of long continued sickness he must look for relief from the hand of public or of private charity. If he casts his eyes on his wife and children, his dying hours are imbittered with thoughts of the misery which may be their portion. Corroding care is the inmate of the poor man's breast. It is so heart-withering, that it may be made a question, if the condition of some slaves in the Southern States is much worse than that of many citizens of the other States. The want of liberty is a great drawback on happiness: but the slave is free from care. He knows that when he grows old, or becomes infirm, his master is bound to provide for his wants.

There would be less objection to that artificial inequality of wealth which is the result of unjust positive institutions, if it increased the happiness of one class of society in the same proportion that it diminishes the happiness of another class. But, increase of wealth beyond what is necessary to gratify the rational desires of a man, does not increase his happiness. If it gives birth to irrational desires, the

gratification of them must produce misery. Even when inordinate wealth does not give birth to irrational desires, it is attended with an increase of care, and this is a foe to happiness.

With some men, the love of wealth seems to be a blind passion. The magpie, in hiding silver spoons in its nest, appears to act with as much reflection as they do, in piling money-bag on money-bag. They have no object in view beyond accumulation. But, with most men, the desire of great wealth appears subordinate to the love of great power and distinction. This is the end, that the means. They love fine houses, splendid equipages, and large possessions, less for any physical gratification they impart, than for the distinction they confer, and the power they bestow. It is with some, as much an object of ambition to be ranked with the richest men, as it is with others to be ranked with the greatest warriors, poets, or philosophers.

The love of that kind of distinction which mere wealth confers, is not a feeling to be highly commended: but it is hardly to be reprobated, when it is constitutional, and when it is under the government of proper moral principle. In this case, it is a simple stimulus to vigorous industry and watchful economy. With some men, the love of ease is the ruling passion, with others the love of pleasure, and with others the love of science. If the love of riches was not, with many men, stronger than any of the other loves we have mentioned, there might not be enough wealth accumulated to serve the general purposes of society. They may claim the liberty of gratifying their particular passion in a reasonable way: but it is a passion which derives less gratification from the actual possession of a large store, than from the constant increase of a small one. The man whose wealth increases gradually from 100 dollars to 1000, thence to 5000, thence to 10,000, and thence to 50,000, has more satisfaction in the process than he who suddenly becomes possessed of 100,000 dollars. As to the distinction which mere wealth confers, it would be obtained in a state of society in which the distribution of wealth was left to natural laws, as certainly as in a state in which positive institutions operate to the advantage of the few, and to the disadvantage of the

many. If the riches of men were made to depend entirely on their industry, economy, enterprize, and prudence, the possession of 100,000 dollars would confer as much distinction as the possession of 500,000 dollars confers at present. Those worth "a plum," would then rank among the "first men" on 'change: those who are worth "five plums" can rank no higher now.

But the system has not a merely negative effect on the happiness of the rich. Such is the uncertainty of fortune in the United States, that even the most wealthy are not exempt from painful solicitude for the future. Who can be sure that he will be able to navigate his own bark in safety to the end of the voyage, when he sees the shore strewed with wrecks ? If a man leaves an estate to his children, he knows not how long they will keep possession of it. If he extends his views to his grand children, the probability will appear strong that some of them will be reduced to abject poverty.

Such is the present custom of trade, that a man who has a considerable capital of his own, not unfrequently gives credit to four or five times the amount of that capital. He is a rich man, but even if the debts due to him are perfectly secure, the perplexity which is created by a long train of credit operations, the failure of but one of which may prove his ruin, must leave him little ground for solid satisfaction: and the necessity he is under in times of embarrassment, of courting the good-will of Bank Directors, goes far towards destroying his personal independence. "The servile dependence on Banks, in which many of our citizens pass their lives," was observed by Mr. Carey as long ago as the year 1811.

There is one other evil resulting from the super-extended system of credit which has its origin in Banking, and with a few observations on this, we shall close our remarks on this head of the subject. We allude to the misery suffered by an honest man, who is involved in debts. We have known cases in which none of the common rules of prudence had been transgressed in incurring the debts, in which the creditors were perfectly convinced of the honesty of the debtor, and neither pressed for

payment, nor reflected on his disability to comply with his engagements: in which the debtor was sensible that his failure would not subject his creditors to any serious inconvenience; and yet a gloom would overspread the mind of the debtor, and remain there for years.

CHAPTER XXIV.

Of the Evils that would be produced by a sudden dissolution of the System.

If every Bank note in the country were consumed by fire to-morrow, the wealth of the nation would be diminished just as much as it would be by the destruction of so much waste paper.

So, if all the title-deeds of estates were destroyed, the loss of positive wealth would be equivalent to the loss of so many skins of parchment. But very great injustice would be done to individuals by the destruction of these skins of parchment; and not less, probably, by the sudden destruction of Bank notes.

It is an easy thing to establish a Banking system: but it is not very easy to get rid of it after it has been some years in operation. The sudden abolition of it, would produce an entire destruction of private credit, a universal pressure for the payment of debts, and a general disability to comply with engagements. Business of nearly every kind would be suspended, and the laboring part of the community would be deprived of employment.

If all the Bank notes in the country should he destroyed to-morrow, the twenty-two millions of specie which are said to be in the vaults of the Banks, would be put in circulation, which, added to the ten millions of specie supposed to be at present in circulation, would make a total of thirty-two millions. Supposing Bank credits to be destroyed at the same moment, the circulating medium would suddenly be reduced from one hundred and nineteen millions (which is, according to Mr. Gallatin, the present aggregate of specie, notes, and Bank credits) to thirty-two millions. If an end were not put to all transactions except by means of barter, the fall of prices would be at least seventy-five per cent.

If but *half* of the Bank notes and Bank credits should be suddenly abolished, the fall of prices would be in greater proportion than the reduction of medium, from the immense quantities of land and of merchandise which would be thrown into the market.

If the Bank medium should be suddenly reduced only one-fourth, the fall of prices would be at least twenty-five per cent., and universal embarrassment would be the consequence.

Many of those who have acquired capital by the different operations of Banking, would not, perhaps, desire any thing better than the sudden destruction of the system. Most estates which are now mortgaged for only one-third or fourth of their worth, at the present rate of valuation, would fall into the hands of speculators. The condition of the whole country would be like that of Kentucky when she adopted her "relief laws." The people would clamor for the issue of paper money by the State Governments, and a worse system than the present might be adopted, if a worse be possible.

Public opinion in the United States, when it once takes root, runs so rapidly to maturity, that this caution is not unnecessary. Some who are now living may see the time when the popular feeling against the Banking system will be stronger than the feeling ever was in its favor.

CHAPTER XXV.
Of the Proper Mode of Proceeding.

As paper drives specie out of circulation, so, the withdrawal of paper brings specie back again. Wherever there is a vacuum it flows in, unless political regulations counteract its tendency to find its own level.

If we gradually withdraw Bank notes from circulation, no evil will ensue, for specie will immediately supply their place.

The proper mode of proceeding would be, to begin with the smallest notes, and proceed gradually to those of the highest denomination.

Mr. White, of New York, in his report to Congress, made in February, 1831, estimates the amount of notes in circulation of a less denomination than five dollars, at not more than seven millions. This does not exceed the amount of gold and silver we sometimes import in one year. But, through the use made of paper, the gold and silver imported in one year are exported in the next. Let small notes fall into disuse, and an equal amount of specie will be retained in the country.

The amount of five dollar notes in circulation is estimated by Mr. White at ten millions. Two years after the act to prohibit the issuing of small notes, it would be perfectly safe to prohibit the issuing of notes of a less denomination than ten dollars.

In two years more, the prohibition might be extended to notes of a less denomination than twenty dollars. Our currency would then be on a par with that of Great Britain.

In two years more the issue of notes of a less denomination than fifty dollars might be forbidden; and in two years after that, the issue of notes of a less denomination than 100 dollars.

In this way, in the short period of ten years, and without producing any commercial convulsion, specie might be made to take the place of paper.

We speak from experience. The principles of the measure have been tried in Virginia, Maryland, and Pennsylvania. In the way in which these States have got rid of small notes, the other States may get rid of them. In the way in which small notes have been driven from circulation, notes of every denomination may be made to give place to specie.

In some parts of Pennsylvania, violent opposition was made to the act to prohibit the circulation of small notes, from an opinion that it would "make money scarce." The grand juries of the counties of Beaver and Erie went so far as to present it as a nuisance. But the Legislature remained firm in its purpose, and many of the former opponents of the law are now among its warmest supporters. The effect of the measure was just such as its friends predicted. An immense quantity of trash disappeared from circulation, and its place was supplied with silver.

The principles of the measure have also been tried in England, where, in 1829, the issue of notes of a less denomination than five pounds sterling was prohibited. The proceeding there was from notes of one pound, or four dollars eighty cents, to notes of five pounds, or twenty-four dollars – a greater jump than would be advisable in America.

Some of our most distinguished statesmen appear to be of opinion that, if it were possible to substitute a metallic for a paper medium, it would greatly promote the interests of the country. Nothing hinders, but *want of inclination*. If either of the great political parties into which our nation is divided, would take a decided stand in favor of sound currency and sound credit, the cause of sound currency and sound credit would be triumphant. The industrious classes of the nation would array themselves with that party, as soon as they could be made to understand the question, and the speculators and their satellites would be vanquished in the contest.

If our national debt was of great amount, and if our taxes were heavy, some difficulties might be experienced in passing from a paper to a metallic medium. But our national debt is now merely nominal, and the taxes payable to the United States may, if necessary, be reduced, without diminishing the efficiency of Government. A country and a people possessed of so much elasticity, could bear greater changes than any here proposed.

Of the perfect feasibility of the measure, we may be convinced in another way. Our exports of domestic produce amount annually to

between fifty and sixty millions of dollars. If we should buy from five to ten millions a year of gold and silver, for ten years, we should still have between forty and fifty millions to expend in the purchase of European manufactures, and East and West India products. If, by the withdrawal of paper, a demand for specie, to the amount of twenty millions annually should be created, it could readily be supplied. England, in four years, on the resumption of specie payments, imported twenty millions sterling in gold alone. Our demand could be supplied by both gold and silver.

Supposing the withdrawal of the Bank notes should cause a diminution of Bank discounts of equal amount, the effect, if we proceeded gradually, would be almost imperceptible. If two years were allowed for the withdrawal of small notes, the diminution of Bank discounts would, in this period, and on this supposition, be at the rate of 3,500,000 dollars a year. In the single city of Philadelphia, there have been, in periods of less than a year, reductions of Bank discounts to as great an amount as is here proposed for the whole country.

According to the estimate of Mr. Gallatin, the whole amount of Bank notes in actual circulation, in 1830, was about 54,000,000. Surely it will not be said, that our whole nation cannot pay off an amount of Bank debt, equal to the amount of Bank notes in circulation, in the period of ten years.

But, supposing we should, in the course of ten years, choose to pay off an amount of Bank debt, equal to the whole amount of Bank medium, or of both Bank notes and Bank credits, amounting together to 109,000,000, would it be a work of insuperable difficulty ? In the last seven years, the Government has paid off the public debt at the rate of eight or ten millions a year: can we not, all of us together, pay off between eleven and twelve millions a year of Bank debt ?

In a pamphlet entitled "Remarks on the Annual Treasury Report," published in 1828, and said to be written by two practical economists, distinguished for their talents and information, the whole capital of the

country is estimated at 12,000,000,000 dollars, and its productive industry at 600,000,000 annually. Mr. Lee of Boston, seems to suppose the national capital is not more than 10,000,000,000, but he increases the national income to 700, or 800 millions. In the Harrisburgh address, drawn up by Mr. Niles, in 1828, our productive industry is estimated at 1,066,000,000. Mr. E. Everett, in his speech of 1830, rates our national income at 1,000,000,000 dollars.

Take the lowest of these estimates; suppose our national capital to be only 10,000,000,000, and our productive industry only 600,000,000 a year, can we not pay off a Bank debt of 109,000,000 in ten years ?

In every year, the increase of loanable capital in the country, must exceed the amount of Bank debt it would be necessary to pay. Private credit would take the place of Bank credit. If there should be a greater demand for capital on loan than could be supplied out of the savings of our own people, capital would flow in abundantly from Europe.

If the notes should be withdrawn gradually, in the manner here proposed, there is not a solvent Bank, nor a solvent individual, in the country, that could not sustain the operation. Such are the energies and the resources of the American people, that it would seem practicable to accomplish the work in half the time we have mentioned. The sooner it is accomplished, the sooner will we be delivered from the evils of our present condition. If, however, ten years be thought too short a time for the work of reform, let it be extended through twenty years or through thirty years. The longest of these is but a short period in the life time of a nation.

***** [Unfortunately for this whishful plan, the people who corrupted politicians, paid for newspapers, by hook and crook got for themselves bank charters, would not sit idly by, while persons of such character are elected into office; would not sit around for ten years, watching their nefarious business legislated out of existence. The closest we could get

was the non-renewal of the charter, and that took a brawler, a battle-field general – and what forces and what money was marshalled against him ?!! brute force can only be opposed with brute force]

CHAPTER XXVI.
Of a New Coinage of Gold.

The money unit of the United States is the dollar, consisting of 416 grains of standard silver, or 371¼ grains of pure silver and 34¾ grains of alloy. All our contracts are to pay and receive dollars; all our accounts are kept in dollars. The dollar is thus our money of both account and contract, and its legal value is fixed by our having a coin of the same name, containing the quantity of pure silver and alloy which has just been mentioned.

Gold is, in the spirit of our laws, a subsidiary currency, its value being computed in silver dollars. At the United States Mint it is rated as fifteen to one – that is to say, one ounce of gold is considered as worth fifteen ounces of silver; or, what is the same thing, as many grains of pure gold as are equal to the number of grains of pure silver contained in a dollar, are coined into an eagle and a half eagle, and estimated at the mint as worth fifteen dollars.

The market rate of gold to silver, as determined by sales of gold bullion and silver bullion, in a series of years past, is about 15.8 to 1. Consequently, if the mint rate corresponded with the market rate, the quantity of pure gold contained in an eagle and a half eagle, ought to be estimated at the mint at about fifteen dollars and eighty cents.

The undervaluation of gold at the mint, is not the reason that it has disappeared from circulation. Eagles have disappeared for the same reason that dollars have disappeared. Whenever Bank notes are used, no more specie is retained in a country than is necessary for transactions of a smaller amount than the least denomination of paper, and is necessary for meeting the few stray notes that may be presented to the Banks for payment. It has been found impossible in England to make sovereigns and one pound notes circulate currently; and we all know that small notes in the United States have not only driven away gold coins, but also such silver coins as are of a higher denomination than a half dollar.

If Bank notes had never been introduced, eagles, half eagles, and quarter-eagles would have continued in circulation, notwithstanding the undervaluation of gold at the mint. The eagle would not have been current at the rate of ten dollars; but at the rate of ten dollars and fifty cents, ten dollars and seventy-five cents – or whatever else it would have been worth. The calculation of the fraction would have been productive of some inconvenience; but the utility of gold coins, in large transactions, would have made them current at a rate probably a little above that which they have borne in the bullion market.

A new gold coinage is desirable; but the proposition to coin eagles of a less weight than the eagles of former times, is not entirely free from objection. As all our contracts are to pay dollars, and as there is no gold at present in circulation, an issue of a new coin, called an eagle, which should be of the exact value of ten dollars, would cause no practical injustice. But the issue of a new coin of different weight from the old, and yet bearing the same name, might give countenance to the idea that money is some thing which owes its value to the authority of Government, and lead, perhaps, at some future time, to an alteration in the dollar – an alteration in our true standard of value.

The Eagle is the proper name of a coin which contains 247½ grains of pure gold, or 270 grains of standard gold, of twenty-two carats fineness. A coin which would contain but 234.84 grains of pure gold, or

256.20 grains of standard gold, ought to be called by another name, and, to prevent all possibility of mistake, should have a different device. When the English ceased to coin pieces containing 118.58-89 grains of pure gold, and began to coin pieces containing 113 grains of pure gold, they did not call the new pieces by the same name as the old. But if the proposition which was laid before Congress, a year or two since, should be adopted, there will be a greater difference in the weight and value of our new half-eagles and our old half-eagles, than there is in those of English sovereigns and English guineas.

To attempt to fix by law what is not fixed by nature, is preposterous. Gold and silver vary in value when compared with one another, in the same manner as copper and iron vary. The variations in the relative value of the precious metals are, it is true, very small; but in different epochs of our history, 232, 234, 238, 247, 250, and 252 grains of pure gold may be worth ten silver dollars. If we should, through all such changes, pertinaciously insist on coining eagles, adapting the quantity of gold in them to the varying state of the bullion market, we should have a dozen different coins, each of a different weight, and yet all bearing the same name.

As there is little use for a gold coin so small as the quarter-eagle, and as we have imitated the Spaniards in our silver coinage, perhaps it would be judicious to imitate them in our gold coinage also, and issue American doubloons, half-doubloons, and quarter-doubloons, of the respective values of sixteen dollars, eight dollars, and four dollars. But, if pieces containing five and ten dollars' worth of gold be preferred, call the ten dollar piece, "the Republican," "the President," or by any name that may please the fancy, except that of "the Eagle." This is a name affixed, by long usage, to a piece containing neither more nor less than 270 grains of standard gold, and calling a piece containing a fewer number of grains by the same name, will certainly lead to confusion of ideas, and perhaps, at some future period, to practical injustice.

Whatever kind of new coins may be preferred, it will be proper to stamp on them the number of grains of pure gold and alloy that they may contain. Each new gold piece will then be a primer of political economy, and help in dissipating the erroneous ideas entertained respecting money.

It will be quite unnecessary to declare by law, that the new gold coins shall be a tender in payment of private debts. People who receive Bank notes at their *nominal* value, will not refuse gold at its *real* value.

To ascertain the quantity of gold it would be proper to put in the new pieces, nothing more is necessary than to strike an average of the price gold bullion has borne as compared with silver bullion, in the principal markets of the world, during the last ten years. The mint regulations of different countries, are of no further account than as they affect the value of gold and silver in the bullion market.

If, from some error in the data made the basis of the calculation, the gold in the new coins should happen to be rated a decimal fraction too low, so small an undervaluation will not cause the coins to be exported. Their utility as a circulating medium will keep them in circulation, the issue of five and ten dollar notes being prohibited.

If the gold should happen to be rated a decimal fraction to high, it will not, as some seem to fear, drive silver out of circulation. The necessity for silver coins in small pay ments will cause them to be retained in the country.

Should there be a greater error than a decimal fraction either too much or too little, in the valuation of gold, the new coin would continue to circulate, but at a small discount or a small premium, thus correcting the error of the mint valuation.

If one metal be made the standard and the legal tender, neither gold nor silver can be driven from circulation, except by paper, and paper cannot

obtain currency except through the sanction or the connivance of government.

Gold is undervalued at the French mint, as well as at our own: but, according to Mr. Gallatin, "it is only during short and extraordinary periods, that the fluctuations have been so great, as that the gold coins did either fall to the par of silver coins, or rise to the premium of one per cent. During by far the greater period of forty-five years, the premium has fluctuated from one-fifth to one-half per cent.: so that the variations in the relative price of the two metals have, with the few exceptions above mentioned, been less than one-third per cent." From the result of experience in France, there is every reason to believe, with Mr. Gallatin, that "the fluctuation in the relative market price of gold and silver, issued under proper mint regulations, would be so small a quantity that it might be neglected."

To establish a system of sound currency and sound credit, it is not absolutely necessary to have a new gold coinage. Only let Bank notes be withdrawn, and eagles, half eagles, and quarter-eagles, will come into circulation, and pass at their real value. But as four and eight, or five and ten dollar pieces, would be more convenient than pieces of the worth of five dollars and the indeterminate parts of a dollar, or ten dollars and the indeterminate parts of a dollar, a new gold coinage is desirable. It would be attended with injustice to no individual. No seignorage being charged at our mint, whatever quantity of gold bullion a man sent there, he would receive back the same amount in gold coin: and this coin he would pass in the market for whatever it might be worth.

CHAPTER XXVII.
Of the Fiscal Concerns of the Union.

In a report to the Senate, by the Committee of Finance, made March 29th, 1830, it is said–

"The Government receives its revenue from–
343 Custom Houses,
42 Land Offices,
8400 Post Offices,
134 Receivers of Internal Revenue
37 Marshals,
33 Clerks of Courts.

"These, with other receiving officers which need not be specified, compose an aggregate of more than 9000 persons, dispersed through the whole of the Union, who collect the public revenue. From these persons the Government has, for the ten years preceding the 1st of January, 1830, received $230,068,855.17. This sum has been collected in every section of this widely extended country. It has been disbursed at other points, many thousand miles distant from the places where it was collected; and yet it has been so collected and distributed, without the loss, as far as the Committee can learn, of a single dollar."

The most difficult point in the business of finance, is to get *possession* of money. If this point is attained, the safe keeping of the money, the transferring of it from one part of the country to another, and the paying it away, are easy undertakings.

If "not a dollar has been lost," it has not been because the present system contains any extraordinary guards against malversation. The collectors at our custom houses have the whole amount of money received by them under their entire control, till it is, at stated times, transferred to the credit of the Treasury Department. Under a different system, all the

public officers at each particular point might be made checks on one another.

With a sub-treasury office in each State, the safe-keeping and disbursing of the public funds could be effected without any difficulty; and the expense of each sub-treasury office need not exceed ten thousand dollars per annum.

If it were necessary occasionally to carry silver from one part of the country to another, the Government could do it as easily and cheaply as individuals. The whole amount it would be necessary to transport, would not probably exceed four or five millions a year, nor the cost go beyond one per cent. As the principal part of the United States' revenue is collected in those sections of the country which have usually the rate of exchange in their favor, what the Government would gain by the sale of bills of exchange in the West and South, on Boston, New York, Philadelphia, and Baltimore, would probably exceed what it would be forced to pay for the transportation of specie.

There is no novelty in this. It is the system of all policed nations except our own. In England, the Bank is merely auxiliary to the Exchequer and the Treasury. The revenue collected at Liverpool, is, or was a few years since, remitted to London through the agency of a private Banker.

To incorporate a Bank with a capital of ten millions or of thirty-five millions, to endow that corporation with privileges which individuals do not possess, and to make its paper receivable in payment of dues to Government, is a measure so wide from the proposed end, that it cannot be considered "as necessary and proper," or, if the phrase be preferred, "as natural and appropriate." It is difficult to believe that it would have been even so much as *thought of*, if the measure had not in itself been calculated to promote certain *private interests*. The natural and appropriate way of keeping the public funds, is in the Treasury and in sub-treasury offices. The natural and appropriate way of transferring them from point to point, is by bills of exchange, and the occasional transportation of specie.

Neither is the establishment of a United States paper money incorporated Bank, the "necessary and proper," or "natural and appropriate" way of correcting the evils occasioned by the State Banks. A National Bank, resting on the same principles as the State Banks, must produce similar evils. It must "contract" and "expand" as well as they.

If Congress should, from excessive caution, or some less commendable motive, delay the passage of the necessary laws for prohibiting the issue of Bank notes, the "necessary and proper" or "natural and appropriate" way of regulating the State Banks, would be by declaring that nothing but gold and silver should be received in payment of dues to the Government. The State Banks would then be obliged to provide a sufficient fund of specie to meet the demands of the merchants having payments to make to Government. This would force them to diminish the amount of notes in circulation. The Government receiving and paying nothing but gold and silver, the people generally would begin to distinguish between paper and specie – between cash and credit. Simple as the measure is, it would double the amount of metallic money in the country, and prevent, in a great degree, fluctuations of currency, and oscillations of credit, by taking away one of the chief causes of the instability of Bank medium.

The establishing of a paper-money incorporated Bank, is not the "necessary and proper" or "natural and appropriate" way of enabling Government to borrow when borrowing is advisable. A Bank may, when instituted, lend to Government its whole capital, or so much, at least, as is not required for supporting its credit and circulation: but it is not often that it can, after it has been sometime in operation, make any great loan to Government, without either curtailing mercantile accommodations, or issuing an excess of paper. Nearly all the *great* "expansions" and "contractions" that have occurred in both England and the United States, can be traced to attempts to convert Banks into fiscal machines. If the operations of Government could be *completely* separated from those of the Banks, the system would be shorn of half its

evils. If Government would neither deposit the public funds in the Banks, nor borrow money from the Banks; and if it would in no case either receive Bank notes or pay away Bank notes, the Banks would become mere commercial institutions, and their credit and their power be brought nearer to a level with those of private merchants.

The "necessary and proper" or "natural and appropriate" way of placing the financial concerns of the country on such a basis as will enable us to provide for all exigencies, is to make gold and silver coins the exclusive money of the country. We shall then be prepared for either peace or war.

To depend on the Banks in time of war, after the experience of both England and the United States, would be the height of infatuation. The impression produced on the minds of men by the suspension of specie payments, is so fresh, that, on a new declaration of war, it is probable great part of the deposits would be withdrawn. If the Banks should escape this evil, the landing of a hostile force of but a few thousand men on any part of the coast, would create "a run" which would compel most of them to suspend payment. If Government should, to forward its financial schemes, sanction or connive at a suspension of specie payments, it would be instrumental in producing such evils as we have suffered in past years.

A war imposes on Government the necessity of expending the greater portion of its revenues in a section of country distant from that in which it collects it. The payment of the war taxes of a single year, would deprive great part of the Union of its specie. The sources of foreign supply would be cut off, and much of the specie which flowed from the interior to the frontiers, would be exported. It would not return in sufficient quantities, or sufficiently early to meet the wants of either the people or the Government.

A vigorous war of but two years continuance, in which our foreign commerce would be interrupted, must produce one of two results. It must either compel the Banks to suspend specie payments, and thus

produce evils which no pen can adequately describe; or else force them to curtail mercantile accommodations, and thus spread ruin through the community. To sustain the credit of Bank medium, it would be necessary to reduce it to one-third or one-fourth of its present amount: and as it would be impossible in a state of war, immediately to obtain a sufficient supply of gold and silver coin, the Government and the people would suffer all the evils of an insufficient circulating medium.

We have profited in some respects by the experience of the last war. We have built ships, constructed fortifications, and collected military stores. But "money is the sinews of war." And it must be real money. Paper money will not then answer. It is not necessary that the real money should be in the coffers of Government. It is enough that it is in the pockets of the people.

Let Bank notes be withdrawn, and such an accumulation of gold and silver coin will be made by individuals, that in no possible exigency will there be a real scarcity of money. This is evident from the condition of certain countries in which paper money is unknown. In Flanders, for example, every farmer has a little purse of gold or silver – small in proportion to his property, but making the aggregate throughout the country very considerable. No thing is lost by this practice. It is impossible to keep the whole wealth of a country in constant circulation. If a man's whole stock consists of but two suits of clothes, he cannot wear them both at the same time. It is of little moment, as regards individuals, whether their reserved stock be in money or in those things which money can procure. In a national point of view nothing is lost by this custom. It ensures the punctual performance of contracts. No man has to call twice on a farmer in Flanders, for the payment of a debt. Whatever may be the vicissitudes of war or of commerce, there is never in that country a scarcity of the tool of all trades.

We have that amount of metallic money in the United States which is barely sufficient, in the most favorable state of things, for daily

exchanges, and which would not answer even in the most favorable state of things, if we had not various modes of barter, and different credit contrivances. As much time is lost every year, in "dunning for debts," as would, if properly employed, purchase some millions of metallic medium. Let the natural order of things be restored, and a sufficiency of metallic money will be collected, to enable the country to bear transitions from peace to war, and to answer all the demands of commerce, both ordinary and extraordinary. As it is the custom of all prudent families in rural districts, to have on hand a greater quantity of flour and other necessaries, than is required for the use of the twenty-four hours, so it will become the custom for each prudent family to have a little money in reserve. Out of this stock, the war taxes will be paid, and before the original stock is completely exhausted, a portion of it will come back to them in the regular course of trade.

Few people are more able than those of the United States to contribute what is necessary for the defence of their country. Few people – if we had a proper money system, would be more willing. Ask the farmer, if, in a war undertaken in a just and righteous cause, he would not be willing to contribute a certain number of bushels of wheat, to vindicate the honor of the nation or secure its safety. Ask the shoemaker, if he would not be willing to contribute a certain number of pairs of shoes. Ask the day laborer, if he would not be willing, in such a contingency, to labor a certain number of days on the fortifications. Now, what a nation actually consumes in the course of a war, is labor and the products of labor: but the taxes cannot be conveniently collected in kind, and to collect them in money is impossible, for the people have it not to give.

Let those obstacles be removed which prevent our acquiring such a stock of metallic money as is adapted to varying exigencies, and in times of hostilities, neither productive industry nor commercial credit will be affected more than is necessary by the incidents of war. In this condition of things, the Government could easily raise considerable sums by taxation. If it chose to borrow, the negotiation of its loans

would not, as in the last war, derange the whole train of mercantile operations. Simply by collecting taxes enough to pay the annual interest, it could borrow to any desirable extent. If the loanable capital of our own country were not sufficient to meet its wants, it would have the market of the world from which to supply the deficiency.

But, let the present system continue, and, in a state of war, the Government must get into financial embarrassments, in attempting to extricate itself from which it will, as in the last war, involve thousands in ruin.

CHAPTER XXVIII.
Of Banking on Proper Principles.

There is nothing novel in the modern system of Banking, except its being carried on by corporations and by the instrumentality of paper money.

Private Bankers were known to the Greeks, the Romans and the Jews. At Rome, especially, they appear to have been very numerous, and to have done an extensive business. The shops round the Great Forum were chiefly occupied by them, and we may learn from Cicero and other ancient authors, that the Romans commonly paid money by their intervention. A Roman would sometimes give an order, or, as we should say, draw a check on his Banker: but the usual way of managing pecuniary transactions, was by writing their names in the Banker's books.[1]

Previous to the establishment of the Bank of England, the goldsmiths of London performed most of the functions of Bankers. To those who

deposited money with them, they sometimes allowed six per cent. interest, but the usual rate did not exceed four per cent.

In Virginia, as is stated by a writer in the Richmond *Enquirer*, the merchants formerly acted as Bankers to the planters. Governor Wolcot, in his Message to the Legislature of Connecticut, in May 1826, says that "private Banks existed in this country before and a short time subsequent to the Revolutionary War."

As a country advances in wealth and population, the business of dealing in money naturally becomes a distinct profession. It is a business which requires no laws for its special encouragement: no charters to cause it to be conducted to the public advantage. The trade in money is as simple in its nature as the trade in flour or the trade in tobacco, and ought to be conducted on the same principles.

Restore the natural order of things, by abolishing money corporations, and, in those parts of the country where there is little population, little wealth, and little commerce, there will be little Banking: while in those parts of the country where commerce is extensively carried on, Bankers will rise up in proportion to the wants of the community.

In most villages, all the call there is for Bankers could be answered by the Postmasters. Offices of deposit, of transfer, and of loan, are not necessary in villages. The only call there for a dealer in money, is to collect debts due to persons at a distance, and transmit the money to to whom it is due. The publishers of periodicals now collect great part of what is owing to them on account of subscriptions through the medium of the Postmasters. Many of the debts due to merchants might be conveniently collected in the same way, if Government were careful to appoint none but solvent and trust-worthy persons to be Postmasters: and if it should make a rule to remove them on proof being given of their having neglected to pay over money which they had collected.

But it would not be necessary for Government to go even this far, for us to have a good Banking system. The Postmaster, in most small towns,

would stand the best chance of becoming collector of debts for persons at a distance, and the commissions he would receive would, in many cases, exceed the amount paid to him as a public officer: but if he was found untrustworthy, or incapable, the business would be transferred to the storekeeper, or some other respectable inhabitant of the village.

In the larger towns, and even in the small towns which are centres of wealthy districts, the business of dealing in exchanges, and of acting as an agent between lenders and borrowers, would become a distinct profession.

In each city the number of Bankers would be in proportion to the amount of business to be done, and their capital in proportion to the trade of the city. A merchant of Philadelphia who wished a note discounted, would, in stead of having his choice among a dozen corporations, have his choice among perhaps twice that number of private Bankers. Instead of being obliged to approach the supercilious Director of some overgrown monied institution, he would deal with a private trader, to whom it would be of as much importance to lend as it would be to himself to borrow. The extent of business these private Bankers would do, would depend, in a degree, on the disposition they showed to accommodate their customers. The competition amongst them would be so lively, that, after the manner of the Bankers of Europe, they would allow a credit on deposits. Being responsible in the whole amount of their private fortunes, they would seldom extend their loans so far as to cherish the wild spirit of speculation. Their whole fortunes would be in the business, and their whole faculties exerted for its proper management, and it is in this way only that any business can be well conducted.

If there should be a necessity for placing any restrictions on these private Bankers, it would be simply that of restraining them from issuing notes, bills, or checks, which would circulate in the same way as the present Bank notes. Some intelligent men who have turned their attention to the subject, think that even this would not be necessary. They are of opinion

that the competition among private Bankers would be so brisk, that they would effectually check one another.

In opposition to this it may be urged, that much has been lost by the breaking of private Bankers in England; though it must be admitted, this is not a case exactly in point, since the private Bankers of England are influenced in their operations, though not regulated, by the great corporate institution of that kingdom.

In Scotland, where the private Banks have the predominance, little has been lost by the breaking of these institutions. But, the evils produced by the occasional breaking of a Bank, are far from being the greatest evils of the system. No instance has occurred of a Bank breaking in Philadelphia, and yet who can adequately describe all that the people of this city have endured from Banking. We have satisfactory evidence that the Scotch Banks, by their "expansions" and "contractions," produce evils, the same in kind, though not in degree, as are felt in Philadelphia.

But in neither England nor Scotland, can we, perhaps, be said to have a fair example of private Banking, as the Government receives Bank notes in payment of taxes. When the Government receives one kind of paper, the people lose their clear perception of the difference between cash and credit, and where room is made in this way for the circulation of paper, the most worthless kind sometimes obtains circulation as easily as the best. "Numberless instances," says the Edinburg *Review*, "have occurred in the history of British banking, within the last few years, in which the notes of individuals without any real capital, and who were from the beginning in a state of insolvency, have continued to circulate for a long period in company with the notes of the best established houses, and to enjoy an equal degree of credit."

The private Bankers on the continent of Europe do not circulate any paper, but it is not in our power to say, whether this is, in all instances, owing to obstacles thrown in their way by Government, or to the indisposition of the people to receive paper where it is not taken in payment of taxes.

If notes issued by private Bankers should circulate as the notes of the present corporations, they would become money. As a credit money, they would necessarily fluctuate in quantity. It is not desirable that, in addition to changes in the state of credit, proceeding from great natural or political causes, we should have changes in the currency, to add to the uncertainty of trade.[2]

If these notes produced no other evil, they would prevent us from accumulating that stock of metallic money, which is required for the varying exigencies of peace and war. After this had been for a time in circulation, the receiving of them would be, as in the case of the present Bank notes, a matter of necessity rather than of choice.

The evil would, indeed, in time, correct itself; but if we can prevent it, why suffer it at all ?[3]

We can certainly carry the credit system far enough, by the agency of leger entries, notes of hand, bills of exchange, and bonds and mortgages. We do not require the additional aid of credit money, to run us deeper in debt.

Why should a private Banker, having a capital of his own of five hundred thousand or a million dollars, and deriving therefrom an income of thirty thousand or of sixty thousand per annum, desire to double his income, by the circulation of paper money ? He would make a legitimate use of his credit, in receiving money on deposit, at five per cent., and lending it again at six per cent. More than this he ought not to desire.[4]

If the capital of a private Banker is small, he will derive as much profit from his credit as he is justly entitled to, in his commission on bills of exchange, and in the difference between the rate he will pay for money taken by him on deposit, and that at which he will lend this money to others.

The issue of notes by Bankers, for the convenient discharge of their own business, will not be necessary. The private Bankers of London and Lancashire issue no notes. At the clearing-house in London, in which their accounts are daily settled by an exchange of checks, transactions to the amount of four or five millions sterling are adjusted with the help of about two hundred thousand pounds in money.

If arrangements of this kind were not found to answer the desired end, a public Office of Transfer and Deposit might be established in each city, on the model of the Bank of Hamburg, with the exception of buying and selling bullion and dealing in exchange, which ought to be left to private Bankers. The establishing of such an Office would be attended with a little expense, but if it would not be worth paying for, it would not be worth having. If the Bankers objected to paying all the expense, the Government might, as such an office would be a safe and convenient depository of the public funds, share the expense with them. There is nothing in the constitution to prevent the establishment of public Banks, which shall be mere Offices of Deposit and Transfer. And as such Banks would be a great public benefit, the defraying of their necessary expenses out of the public revenue would not be objectionable.

In this way, we should secure all the advantages the present system affords, and avoid all its disadvantages.

We should have places of deposit safer than the present; for the money deposited in a public Bank by one man would not be lent to another.

The business of settling accounts by transfers of credit, would be greatly facilitated. One public Bank would suffice for each city, and the time which is now lost in running from Bank to Bank, would be saved.

The private Banks, paying interest on deposits, would extend throughout the country the advantages of Saving Banks.

Men who wished to borrow, would deal with a private Banker as an equal, instead of dealing, as at present, with an overgrown corporation, as a superior.

The business of dealing in exchange, would be better conducted than at present, for it would be left free to in dividuals, and they would show the same disposition to oblige and to give satisfaction, that is now evinced by the dry goods merchant, or the importer of groceries.

Instead of having to pay the expense of three or four hundred public Banks, we should have to pay the expense of only twenty or thirty, for this number of offices of deposit and transfer would suffice for the whole United States.

We should escape all the evils that flow from Banks as corporations, from fluctuations of the circulating medium, and from the false system of credit which has its origin in the present banking system.

And what should we lose ? The supporters of the present system admit that "the only substantial advantage at tending paper money appears to be its cheapness." Taking their own estimates of the amount of Bank notes and Bank credits, the sum thus gained does not amount to more than forty cents a year for each individual in the nation. Is it worth while for so trifling a gain, (admitting it, by way of argument, to be again,) to endure all the evils evils of a bad system, and forego all the advantages of a good ?

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2 "Hitherto," says Tooke, "the Legislature has restricted individuals, under the severest penalties, from establishing private mints, and uttering metallic money of intrinsic and discreditable value; yet, with a degree of inconsistency which strikes us as most extraordinary the more attentively we consider it, our law-makers have permitted individuals to establish private Banks of circulation – and to utter paper money, possessed of only a conventional value,

which *a breath of panic may at any time destroy*. On the same principle that the Government protects the public against the probable insecurity which might arise from individuals being permitted to utter metallic currency, it should guard against the more probable, nay *certain insecurity* which is created when individuals utter a paper currency. In every civilized country, supplying and regulating the circulating medium is a function of the sovereign prerogative.

3 What is here advanced is not at variance with the principles of Adam Smith, as will be seen by the following extract from his writings:
"To restrain private people, it may be said, from receiving in payment the promissory notes of a Banker for any sum, whether great or small, when they themselves are willing to receive them; or, to restrain a Banker from issuing such notes, when all his neighbors are willing to accept them, is a manifest violation of that natural liberty which it is the proper business of law not to infringe but to support. Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few in dividuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments: of the most free, as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed."

The proposal Adam Smith here supports, is that of prohibiting private Bankers from issuing notes of a less denomination than five pounds sterling, nearly *twenty-five dollars* Federal money. On the principles on which he proposes to prohibit the issue of notes of some denominations, the issue of notes of all denominations may be prohibited.

4 "There is no more reason why a man, or body of men, should be permitted to demand of the public, interest for their reputation of being rich, than there would be in permitting a man to demand interest for the reputation of being wise, learned, or brave. If a man is actually rich, it is enough for him to receive interest for his money, and rent for his land, without receiving interest for his credit also." –*Raymond*.

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Private Bankers were known to the Greeks, the Romans and the Jews. At Rome, especially, they appear to have been very numerous, and to have done an extensive business. The shops round the Great Forum were chiefly occupied by them, and we may learn from Cicero and other ancient authors, that the Romans commonly paid money by their intervention. A Roman would sometimes give an order, or, as we should say, draw a check on his Banker: but the usual way of managing pecuniary transactions, was by writing their names in the Banker's books.[1]

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requires no laws for its special encouragement: no charters to cause it to be conducted to the public advantage. The trade in money is as simple in its nature as the trade in flour or the trade in tobacco, and ought to be conducted on the same principles.

Restore the natural order of things, by abolishing money corporations, and, in those parts of the country where there is little population, little wealth, and little commerce, there will be little Banking: while in those parts of the country where commerce is extensively carried on, Bankers will rise up in proportion to the wants of the community.

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But it would not be necessary for Government to go even this far, for us to have a good Banking system. The Postmaster, in most small towns, would stand the best chance of becoming collector of debts for persons at a distance, and the commissions he would receive would, in many cases, exceed the amount paid to him as a public officer: but if he was found untrustworthy, or incapable, the business would be transferred to the storekeeper, or some other respectable inhabitant of the village.

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2   "Hitherto," says Tooke, "the Legislature has restricted individuals, under the severest penalties, from establishing private mints, and uttering metallic money of intrinsic and discreditable value; yet, with a degree of inconsistency which strikes us as most extraordinary the more attentively we consider it, our law-makers have permitted individuals to establish private Banks of circulation – and to utter paper money, possessed of only a conventional value, which *a breath of panic may at any time destroy*. On the same principle that the Government protects the public against the probable insecurity which might arise from individuals being permitted to utter metallic currency, it should guard against the more probable, nay *certain insecurity* which is created when individuals utter a paper currency. In every civilized country, supplying and regulating the circulating medium is a function of the sovereign prerogative.

3   What is here advanced is not at variance with the principles of Adam Smith, as will be seen by the following extract from his writings:

"To restrain private people, it may be said, from receiving in payment the promissory notes of a Banker for any sum, whether great or small, when they themselves are willing to receive them; or, to restrain a Banker from issuing such notes, when all his neighbors are willing to accept them, is a manifest violation of that natural liberty which it is the proper business of law not to infringe but to support. Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few in dividuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments: of the most free, as well as of the most despotical. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here

proposed."

The proposal Adam Smith here supports, is that of prohibiting private Bankers from issuing notes of a less denomination than five pounds sterling, nearly *twenty-five dollars* Federal money. On the principles on which he proposes to prohibit the issue of notes of some denominations, the issue of notes of all denominations may be prohibited.

4 "There is no more reason why a man, or body of men, should be permitted to demand of the public, interest for their reputation of being rich, than there would be in permitting a man to demand interest for the reputation of being wise, learned, or brave. If a man is actually rich, it is enough for him to receive interest for his money, and rent for his land, without receiving interest for his credit also." –*Raymond*.

CHAPTER XXIX.
Probable Consequences of the Continuance of the Present System.

To infer that because a system produces great evil, it must soon give way, would be to argue in opposition to all experience. If mere suffering could produce reformation, there would be little misery in the world.

Too many individuals have an interest in incorporated paper money Banks, to suffer the truth in relation to such institutions to have free progress. Too many prejudices remain in the minds of a multitude who have no such interest, to permit the truth to have its proper effect.

It is, therefore, rational to conclude that the present system may, at least with modifications, continue to be the system of the country – not for ever, as some seem to think, but for a period which cannot be definitely calculated. It is also rational to conclude that the effect it will have on society in time to come, will be similar to the effect it has had in time past. We have, then, in the present state of the country, the means of judging of its future condition.

No system of policy that can be devised, can prevent the United States from advancing in wealth and population. Our national prosperity has its seat in natural causes which cannot be effectually counteracted by any human measures, excepting such as would convert the Government into a despotism like that of Turkey, or reduce the nation to a state of anarchy resembling that of some countries of South America.

Our wealth and population will increase till they become equal for each square mile to the wealth and population of the continent of Europe.

We are now very far from this limit. Under a good system, we cannot reach it in less than one or two hundred years. Under a bad system, in not less, perhaps, than three or four hundred.

If we had a political system as bad as that of Great Britain, with its hereditary aristocracy, its laws of entail and primogeniture, its manufacturing guilds, its incorporated commercial companies, its large standing army, its expensive navy, its church establishment, its borough mongering, its pensions and its sinecures, our advancement would be seriously retarded. But our wealth and population would, notwithstanding, continue to increase, till they should bear the same ratio to the natural resources of the country, that the wealth and population of Great Britain have to the natural resources of that island.

The progress of opulence in the United States in the next forty or fifty years, will probably be very great. Many of the natural sources of wealth are as yet unappropriated. In no part of the country has their productiveness been fully developed. The people have now sufficient capital to turn their land and labor to more profit than was possible in any previous period of our country's history.

The daily improvements in productive machinery, and especially in the application of steam power, the discoveries in science, the introduction of new composts and new courses of crops in agriculture, the extension of roads and canals, have all a tendency to increase the wealth of the country, till the aggregate shall be enormous.

But this increase of wealth will be principally for the benefit of those to whom an increase of riches will bring no increase of happiness, for they have already wealth enough or more than enough. Their originally small capitals have, in the course of a few years, been doubled, trebled, and, in some instances, quadrupled. They have now large capitals, which will go on increasing in nearly the same ratio.

As no kind of property is prevented from being the prize of speculation by laws of entail, it is not easy to set bounds to the riches which some of our citizens may acquire. Their incomes may be equal to those of the most wealthy of the European nobility. Think, for a moment, of the immense accession of wealth certain families in the neighborhood of large cities and other improving towns must receive, from the

conversion of tracts of many acres into building lots. For ground which cost them but one hundred dollars an acre, they may get ten thousand dollars, twenty thousand dollars, or twenty-five thousand dollars. This will be without any labor or expenditure of capital on their part. The land will be increased in value, by the improvements made around it at the expense of other men.

But this is but one of the ways in which the wealth of the rich will increase. It has heretofore been found that capital invested in lots, even in the neighborhood of the most flourishing towns, doubles itself less rapidly than capital devoted to other purposes of speculation. In whatever way it may be employed the capital of the rich will, in the aggregate, increase in nearly the ratio of compound interest.

The vicissitudes of fortune will be, as they have been in past years, many and great, but they will tend to increase the inequality of social condition, by throwing the wealth of several rich men into the hands of one. It is seldom that the vicissitudes of fortune distribute the wealth of a few among the many.

An increase in the number of Banks must be expected. If the system is to be perpetual, an increase in the number of these institutions would not, in some respects, be an evil; for seven hundred Banks could circulate no more paper than three hundred and fifty. But every new Bank is a new centre of speculation; and one kind of stock-jobbing gives birth to another. We shall have new schemes for growing rich without labor – similar perhaps to the British bubble companies of 1825 – perhaps to the former speculations in Washington City lots – perhaps to the recent speculations in Pennsylvania coal lands. The present rage for rail-road stock shows that part of our population already want something to be crazy about – or rather want something by which to set their neighbors crazy. The old modes of speculation no longer afford full employment for their time and talents.

Nearly all the secondary operations of society will tend to increase the disparity between the rich and poor as different classes of the

community, and not a small proportion of the rich will, in due time, become as luxurious and as corrupt, as ostentatious and as supercilious, as the "first circles" in the most dissipated capitals of Europe.

Their early habits of industry and economy cleave to some of the rich men of the present day. Hence they are as useful and, as modest members of society as many who are in moderate circumstances. But when their immense wealth passes, as pass it must in a few years, to their heirs, who know not the value of money, because they never knew the want of it, it will be lavished in every way which corrupt inclination can dictate.

While some will be enormously rich, there will be a considerable number in a state of comfort, as in Great Britain, and very many in a state of disconsolate poverty. Some years must, indeed, elapse, before the number of paupers and criminals, and of persons whose condition borders on pauperism, will bear the same proportion to population in Europe and America. In our immense extent of uncultivated land, the poor have a place to fly to; but the spirit of speculation will follow them there. We need not wait till the country is fully peopled to experience a measure of these evils. While some parts of the Union will have all the simplicity, the rudeness, and the poverty of new settlements; others will exhibit all the splendor and licentiousness, and misery and debasement of the most populous districts of Europe.

The beginning of this state of things is already observable. According to the estimates of Mr. Niles, the number of paupers in the maritime counties of the United States, was, in 1815, in the proportion of one to every 130 inhabitants; and, in 1821, in the proportion of two to every 130.

The published accounts do not give the number of persons admitted into the almshouses or committed to the prisons of Philadelphia, in the course of the year; but the number of commitments of criminals and vagrants amounts to three or four thousand annually, and the number of admissions into the alms-house is equally considerable. As the same

person may be admitted or committed several times, we cannot give the exact number of either paupers or criminals. But at one time last winter, there were upwards of sixteen hundred poor persons in the Spruce Street Alms-house; and many more were receiving outdoor relief.[5]

In some years the public expenditures on account of the poor in Philadelphia, exceed the expenditures on the same account in Liverpool.

Some of the members of a Commission appointed about twelve years ago to inquire into the causes and extent of pauperism in Philadelphia, estimated the cost of relieving the poor at between four hundred and five hundred thousand dollars a year. In this estimate was included what is given in private charity, as well as what is given in public: and an allowance was made for rent of almshouses and hospitals, or for interest on the first cost of land and buildings set apart for the use of the poor. At that time the population of the city and suburbs did not much exceed one hundred and twenty thousand.

We may increase the legal provision for the relief of the indigent, and multiply alms-houses and hospitals. But no thing of this kind can supply the want of just laws and of equal institutions.

Efforts may be made in various ways to diffuse the blessings of education, and to promote moral and religious improvement. But these efforts will only alleviate our social evils: They cannot cure them.

In no small degree will the public distress be increased by well-meant but ill-directed attempts to give relief. There is a class of politicians, (and they are unfortunately numerous and powerful,) who have for each particular social evil a legal remedy. They are willing to leave nothing to nature: the law must do every thing.

This is, most unfortunately, the kind of legislation which public distress is almost sure to produce. Instead of tracing its cause to some *positive* institution, the removal of which, though it might not immediately relieve distress, would prevent its recurrence, men set themselves to

heaping law upon law, and institution upon institution. They in this resemble quacks who apply lotions to the skin to cure diseases of the blood, or of the digestive organs, occasioned by intemperate living.

These projects of relief and efforts at corrective legislation, will be numberless in multitude and diversified in character: but as they will not proceed on the principle of "removing the cause that the effect may cease," they will ultimately increase the evils they are intended to cure.

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5 Part of this pauperism and criminality must be attributed to European institutions, as the character of the subjects was formed before they migrated to America. Another part is of domestic origin.

CHAPTER XXX.
Probable Effects of the Establishment of a System of Sound Currency and Sound Credit.

The laws which govern the moral world are just as certain in their nature as those which govern the physical: but it is not always easy to fortell the effects of a political measure, because it is not easy to foresee the precise combination of causes that will be in operation at any future period. David Hume reasoned with perfect correctness from the premises before him, when he predicted that an increase of the national debt beyond a certain amount would make the British Government bankrupt. But he did not foresee the great increase of wealth, and consequent increase of ability in the people to bear public burdens, which has been caused by the use of steam and of productive machinery; and the Government has swelled the debt beyond the amount he fixed upon, without becoming bankrupt.

As we have neither a large standing army nor an expensive navy, neither King nor titled nobility to support, neither sinecurists nor pensioners to pay, it would seem rational to believe that, on the destruction of the monied corporation system, honest industry in the United States would be secure of its reward. But it is, perhaps, too soon to assert that the ingenuity of those who wish to grow rich by the labor of others will then be exhausted. The Banking system destroyed, they may invent some other, equally plausible and equally pernicious.

There has been at least an apparent improvement in the moral sentiments of men. About three centuries ago, it was customary to insert in the treaties between Christian Kings, a stipulation that the subjects of one King should not plunder the subjects of another, on the high seas, in time of peace – in other words, it was made matter of express covenant that merchants should not be pirates. At a much later period, many Scottish gentlemen thought it quite as honorable and as honest to levy "black

mail" on the estates of their neighbors, as to levy rents on their own estates.

Some intelligent writers seem to be of opinion, that the improvement in moral sentiment is rather apparent than real. There is, they assert, so much less personal risk certain modern modes of acquiring wealth, that men can lay little claim to merit because they do not carry off their neighbors' cattle by force of arms, or rob ships on the high seas. Lord Byron appears to have been of this way of thinking, for he said that "if the funds failed, he meant to take to the high-way, as he considered that the only honorable mode of making a living, now left for honest men."

"For why ?
The good old rule sufficeth still,
The simple plan–
That they shall take who have the power,
And they shall keep who can."

"Many ingenious men" says an American author, "have amused themselves and others, in forming theories respecting the social compact. Some supposed it to originate in one way, some in another. Some supposed it to have been formed for one purpose, some for another. It is supposed by some to have been formed for defence – others suppose it to have been formed for aggression. It is true, that every thing on this subject is mere speculation; and one man has as much right to form theories as another, but it is very clear, that aggression must precede defence, and that before communities could have been formed for defence, there must have been others formed for aggression. Had there been no such thing as attack, men would never have thought of defence. The primary object, therefore, in forming the social compact, must have been plunder; and the first article of that compact no doubt was, "*we will plunder our neighbors*." The second article probably was, "*we will not plunder each other*." This article was necessary to enable them to carry the first into effect.

"The first article in the social compact has been faithfully executed, as far as it was practicable. The second article has been and still is evaded, or forcibly violated, by a large portion of every community. How many people do we see in every community, who, instead of supporting themselves by their own industry, contrive to supply themselves with the necessaries and comforts of life, from the industry of others ? Some do this by fraud and overreaching. Some by direct violence – some by the exercise of their wits in one way, some in another. Some by the permission, or the express provision, of the law – others in violation of it. What a host would there be, if all the people in the United States even, who live by the labor of others, were collected together.

"The history of mankind, in all ages of the world, shows that they will never labor for subsistence, so long as they can obtain it by plunder – that they will never labor for themselves, so long as they can compel others to labor for them."[6]

This is a gloomy view of things: and we cannot say that we assent to its correctness in every particular. We trust there has been, in the last three centuries, some real improvement in the minds of men. Yet history and experience both show that there is a strong principle of evil which shows itself in different forms in different men, and which changes its appearance in communities with change of circumstances.

As this principle is found in Americans as well as in Europeans and Asiatics, we may rest assured, that, if the money corporation system shall be abolished, attempts will be made, under the plausible pretext of promoting the public good, to have other laws passed, and other institutions established, which will give to some members of the community advantages over the rest. The attempts of this kind will probably be numerous, for even those who apparently pay most regard to the principles of natural justice, think themselves fairly entitled to such advantages as the law gives them, and deem it quite proper to endeavor to advance their private speculations by procuring legislative enactments in their especial favor. If these attempts shall be

successfully resisted, we may rationally expect – being delivered from the curse of paper money and of monied corporations – a considerable improvement, in the following particulars.

1. The demand for most articles of commerce and manufactures will become regular, and the supply will conform itself to the demand, the variations being seldom so sudden or so great as to prevent men of good common sense from managing their business successfully. At present, men find it difficult to make the operation of the natural causes that affect supply and demand the basis of an estimate, in engaging in any enterprize, because these causes are confounded with others growing out of the present sys tem of business.

2. Bankruptcies will be as rare as they were before the Revolution, and losses by bad debts will be inconsiderable. More or less uncertainty will always attend foreign commerce. Events which may happen abroad may, from time to time, have an injurious effect on bodies of merchants engaged in a trade with particular countries; but, as is correctly observed by Mr. Gallatin, the effects of commercial revulsions in a country having a metallic currency, are generally confined to dealers, extending but indirectly and feebly to the community, and never affecting the currency, the standard of value, or the contracts between persons not concerned in the failures.

3. The value of that which forms the principal item of wealth in every country, the land and its improvements, is affected slowly by natural causes. It seldom rises or falls, except in particular situations, more than one or two per cent. in the course of a year. Such variations would not be great enough to prevent the majority of men from forming correct estimates of the value of real estate: and as there would be a continuous rise in the value of land, with the increase of wealth and population, sellers would be quite secure in receiving one-fourth of the purchase money and a mortgage for the remainder, and buyers would run little risk of losing, from a fall in the price of property. The special causes

which would affect the value of lands in particular localities, might be estimated with some degree of exactness.

4. The prices of land and commodities being left to the regulation of natural causes, it would, in most instances, be easy to form a judgment of the probable result of different undertakings. The risk, in the great majority of en terprizes, would not be greater than that of the farmer when he ploughs and sows his fields. It would be easy to tell what businesses are adapted to the state of the country, and to different parts of the country. The developement of the natural sources of wealth would proceed in natural order, and men would grow rich, not by impoverishing others, but by the same causes that enrich nations.

5. Credit would be diffused through the community, and each man would get that share to which he would be justly entitled. The thrifty young mechanic, and the in dustrious farmer, though not possessed of real estate, would be able to borrow on bond, for such periods as might be necessary to bring their little undertakings to a successful issue.

6. Every increase of capital increasing the fund out of which wages would be paid, would increase the reward of the laborer. Through the new distribution of capital which would be produced by a just apportionment of credit, the number of the competitors of the working-man would be diminished, and the number of his employers increased. He would thus reap a double advantage, from the in crease of competition on the one side, and its decrease on the other.

7. The present order of things, by rendering the condition of some members of society almost hopeless, takes away from them almost every inducement to industry and economy. They labor only from the stimulus of necessity; and if, in particular seasons, they obtain more than is necessary for immediate subsistence, they expend it in procuring some sensual gratification. But, open to these men a fair prospect of acquiring a little property and of being secure in its possession, and many who are now indolent will become industrious, and many who are extravagant will become economical. Give them an object worth working and

saving for, and but few, even of those who are least gifted with natural prudence, will become a burden to their friends, or to the public.

8. The moral character of a great part of the nation has been stamped so deeply by causes which have been in operation for half a century, or for nearly a century and a half, if we count from the first issue of paper money by Massachusetts, that many years perhaps, will, elapse, before it can be essentially changed. But one of the first effects of abolishing the money-corporation system, will be that of raising the standard of commercial honesty in a perceptible degree, and the standard of political honor will, in a few years, be sensibly elevated.

9. In a state of things in which industry was sure of its reward, few persons would be destitute of the pecuniary means for obtaining instruction. The intellectual powers of the great body of the people would then be fully developed, and this could not fail to promote the correct management of public and private affairs.

10. The causes of evil are as numerous as the varieties of evil. The Banking system must be regarded as the principal cause of social evil in the United States; but it is by no means the only one. There are other positive in stitutions in our land which are very pernicious. Remove the Banking system, and the extent in which most other evil institutions operate, will become evident. The application of the proper remedies will then be an easy task.

In the best social system that can be imagined, that is, in one in which there should be no laws or institutions of any kind except such as are absolutely necessary, and in which the few laws and institutions which are really necessary should be perfectly just in principle and equal in operation, there would necessarily be an inequality in the condition of men. It would proceed in part from differences in mental and bodily strength, in skill, in industry, in economy, in prudence, and in enterprize. In part, it would proceed from causes beyond human control. But this would be a natural inequality, and it would not be an

evil. The sight of one man enjoying the reward of his good conduct, would induce others to imitate his example.

We have evidence in the condition of Switzerland and Holland, of what patient industry can accomplish. One of these countries is mountainous and rugged; the other is a marsh, great portion of which has been reclaimed from the sea.

Yet they are, in proportion to the number of square miles they contain, among the richest countries in the world. In Switzerland there are, or were till lately, many absurd restrictions on the liberty of the people. The national debt of Holland is very great, and the taxes are consequently heavy. Switzerland is an inland country, and has intercourse with distant nations, through the permission of the neighboring kingdoms. It owes its independence to the sufferance of its powerful neighbors. Holland is frequently devastated by hostile armies. It is not free from commercial monopolies. In both Holland and Switzerland there is an inequality of political rights quite incompatible with our American ideas of natural justice. Yet, under all these disadvantages, natural and political, Holland and Switzerland have arrived at a degree of improvement which excites the admiration of every candid observer.

Now, if the Union of the States can be preserved, to what may we not rise, under our free political institutions, with the immense extent of our natural resources, with all our advantages for foreign and domestic trade, and exempted as we are by our situation from a participation in the wars of Europe.

It would really appear that, if we could only get rid of a few laws and institutions which give advantages to some men over others, we might arrive at a state of improvement which would surpass that of any country of which mention is made in history. We have more means of happiness within our reach, than any other people. If we turn them not to a good account, the fault will be our own, and we must patiently bear the consequences.

6. Raymond, *Elements of Political Economy*, Baltimore 1823.

CHAPTER XXXI.
Summary.

To place the subject fairly before the reader, we shall bring together the principal propositions that have been supported in this essay, and leave the decision to his candid judgment.

We have maintained :

1. That *real money* is that valuable by reference to which the value of other articles is estimated, and by the instrumentality of which they are circulated. It *is a commodity*, done up in a particular form to serve a particular use, and does not differ essentially from other items of wealth.

2. That *silver*, owing to its different physical properties, the universal and incessant demand for it, and the small proportion the annual supply bears to the stock on hand, is as good a practical standard of value as can reasonably be desired. It has no variations except such as necessarily arise from the nature of value.

3. That real money diffuses itself through different countries, and through different parts of a country, in proportion to the demands of commerce. No prohibitions can prevent its departing from countries where wealth and trade are declining; and no obstacle, except spurious money, can prevent its flowing into countries where wealth and trade are increasing.

4. That money is the tool of all trades, and is, as such, one of the most useful of productive instruments, and one of the most valuable of labor saving machines.

5. That bills of exchange and promissory notes are a mere commercial medium, and are, as auxiliaries of gold silver money, very useful: but they differ from metallic money in having no inherent value, and in being evidences of debt. The expressions of value in bills of exchange

and promissory notes, are according to the article which law or custom has made the standard; and the failure to pay bills of exchange and promissory notes, does not affect the value of the currency, or the standard by which all contracts are regulated.

6. That Bank notes are mere evidences of debt due by the Banks, and in this respect differ not from the promissory notes of the merchants; but, being received in full of all demands, they become to all intents and purposes the money of the country.

7. That Banks owe their credit to their charters; for, if these were taken away, not even their own stockholders would trust them.

8. That the circulating quality of Bank notes is in part owing to their being receivable in payment of dues to government; in part to the interest which the debtors to Banks and Bank stockholders have in keeping them in circulation; and in part to the difficulty, when the system is firmly established, of obtaining metallic money.

9. That so long as specie payments are maintained, there is a limit on Bank issues; but this is not sufficient to prevent successive "expansions" and "contractions," which produce ruinous fluctuations of prices; while the means by which Bank medium is kept "convertible" inflict great evils on the community.

10. That no restriction which can be imposed on Banks, and no discretion on the part of the Directors, can prevent these fluctuations; for, Bank credit, as a branch of commercial credit, is affected by all the causes, natural and political, that affect trade, or that affect the confidence man has in man.

11. That the "flexibility" or "elasticity" of Bank medium is not an excellence, but a defect, and that "expansions" and "contractions" are not made to suit the wants of the community, but from a simple regard to the profits and safety of the Banks.

12. That the uncertainty of trade produced by these successive "expansions" and "contractions," is but one of the evils of the present system. That the Banks cause credit dealings to be carried to an extent that is highly pernicious – that they cause credit to be given to men who are not entitled to it, and deprive others of credit to whom it would be useful.

13. That the granting of exclusive privileges to companies, or the exempting of companies from liabilities to which individuals are subject, is repugnant to the fundamental principles of American Government; and that the Banks, inasmuch as they have exclusive privileges and exemptions, and have the entire control of credit and currency, are the most pernicious of money corporations.

14. That a nominal responsibility may be imposed on such corporations, but that it is impossible to impose on them an effective responsibility. They respect the laws and public opinion so far only as is necessary to promote their own interest.

15. That on the supposition most favorable to the friends of the Banking system, the whole amount gained by the substitution of Bank medium for gold and silver coin, is equal only to about 40 cents per annum for each individual in the country; but that it will be found that nothing is in reality gained by the nation, if due allowance be made for the expense of supporting three or four hundred Banks, and for the fact that Bank-medium is a machine which performs its work badly.

16. That some hundreds of thousands of dollars are annually extracted from the people of Pennsylvania, and some millions from the people of the United States, for the support of the Banks, insomuch as through Banking the natural order of things is reversed, and interest paid to the Banks on evidences of debt due by them, instead of interest being paid to those who part with commodities in exchange for bank notes.

17. That into the formation of the Bank capital of the country very little substantial wealth has ever entered, that capital having been formed

principally out of the promissory notes of the original subscribers, or by other means which the operations of the Banks themselves have facilitated. They who have bought the script of the Banks at second hand, may have honestly paid cent. per cent. for it; but what they have paid has gone to those from whom they bought the script, and does not form any part of the capital of the Banks.

18. That if it was the wish of the Legislature to promote usurious dealings, it could not well devise more efficient means than incorporating paper money Banks. That these Banks, moreover, give rise to many kinds of stock jobbing, by which the simple-minded are injured and the crafty benefitted.

19. That many legislators have, in voting for Banks, supposed that they were promoting the welfare of their constituents; but the prevalence of false views in legislative bodies in respect to money corporations and paper money, is to be attributed chiefly to the desire certain members have to make money for themselves, or to afford their political partisans and personal friends opportunities for speculation.

20. That the banking interest has a pernicious influence on the periodical press, on public elections, and the general course of legislation. This interest is so powerful, that the establishment of a system of sound currency and sound credit is impracticable, except one or other of the political parties into which the nation is divided, makes such an object its primary principle of action.

21. That through the various advantages which the system of incorporated paper money Banking has given to some men over others, the foundation has been laid of an artificial inequality of wealth, which kind of inequality is, when once laid, increased by all the subsequent operations of society.

22. That this artificial inequality of wealth, adds nothing to the substantial happiness of the rich, and detracts much from the happiness

of the rest of the community. That its tendency is to corrupt one portion of society, and debase another.

23. That the sudden dissolution of the Banking system, without suitable preparation, would put an end to the collection of debts, destroy private credit, break up many productive establishments, throw most of the property of the in dustrious into the hands of speculators, and deprive laboring people of employment.

24. That the system can be got rid of, without difficulty, by prohibiting, after a certain day, the issue of small notes, and proceeding gradually to those of the highest denomination.

25. That the feasibility of getting rid of the system, is further proved by the fact, that the whole amount of Bank notes and Bank credits, is, according to Mr. Gallatin's calculation, only about one hundred and nine million dollars. By paying ten or eleven millions a year, the whole can be liquidated in the term of ten years. If, however, twenty or thirty years should be required for the operation, the longest of these is but a short period in the life time of a nation.

26. That it has not been through the undervaluation of gold at the mint, that eagles and half-eagles have disappeared; but from the free use of Bank notes. Nevertheless, a new coinage of pieces containing four and eight, or five and ten dollars worth of gold is desirable, to save the trouble of calculating fractions. The dollar being the money of contract and account, no possible confusion or in justice can be produced by an adjustment of the gold coinage to the silver standard.

27. That incorporating a paper money Bank is not the "necessary and proper," or "natural and appropriate" way of managing the fiscal concerns of the Union; but that the "necessary and proper," or "natural and appropriate" way, is by sub-treasury offices.

28. That incorporating a paper money Bank is not "the necessary and proper," or "natural and appropriate" way of correcting the evils

occasioned by the State Banks, inasmuch as a National Bank, resting on the same principles as the State Banks, must produce similar evils.

29. That "convertible" paper prevents the accumulation of such a stock of the precious metals as will enable the country to bear transitions from peace to war, and insure the punctual payment of war taxes, and that the "necessary and proper," or "natural and appropriate" way of providing for all public exigencies, is, by making the Government a solid money Government, as was intended by the framers of the Constitution.

30. That if Congress should, from excessive caution, or some less commendable motive, decline passing the acts necessary to insure the gradual withdrawal of Bank notes, they may greatly diminish the evils of the system, by declaring that nothing but gold and silver shall be received in payment of duties, and by making the operations of the Government entirely distinct from those of the Banks.

31. That, on the abolition of incorporated paper money Banks, private Bankers will rise up, who will receive money on deposit, and allow interest on the same, discount promissory notes, and buy and sell bills of exchange. Operating on sufficient funds, and being responsible for their engagements in the whole amount of their estates, these private Bankers will not by sudden and great "expan sions" and "curtailments" derange the whole train of mercantile operations. In each large city, an office of deposit and transfer, similar to the Bank of Hamburgh, will be established, and we shall thus secure all the good of the present Banking system, and avoid all its evils.

32. That, if the present system of Banking and paper money shall continue, the wealth and population of the country will increase from natural causes, till they shall be equal for each square mile to the wealth and population of Europe. But, with every year, the state of society in the United States will more nearly approximate to the state of society in Great Britain. Crime and pauperism will increase. A few men will be inordinately rich, some comfortable, and a multitude in poverty. This condition of things will naturally lead to the adoption of that policy

which proceeds on the principle that a legal remedy is to be found for each social evil, and nothing left for the operations of nature. This kind of legislation will increase the evils it is intended to cure.

33. That there is reason to hope that, on the down fall of monied corporations, and the substitution of gold and silver for Bank medium, sound credit will take the place of unsound, and legitimate enterprize the place of wild speculation. That the moral and intellectual character of the people will be sensibly though gradually raised, and the causes laid open of a variety of evils under which society is now suffering. That the sources of legislation will, to a certain extent, be purified, by taking from members of legislative bodies inducements to pass laws for the special benefit of themselves, their personal friends and political partisans. That the operation of the natural and just causes of wealth and poverty, will no longer be inverted, but that each cause will operate in its natural and just order, and produce its natural and just effect – wealth becoming the reward of industry, frugality, skill, prudence, and enterprize, and poverty the punishment of few except the indolent and prodigal.